THE FREEMAN

IDEAS ON LIBERTY

My Kind of President

The America We Lost

The Rise of Government and the Decline of Morality

Freedom and Morality

MARCH 1996

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March 1996 Vol. 46, No. 3

THE FREEMAN

IDEAS ON LIBERTY

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THE FREEMAN
IDEAS ON LIBERTY

Published by
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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

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The costs of Foundation projects and services are met through donations, which are invited in any amount. Donors of $30.00 or more receive a subscription to *The Freeman*. Student subscriptions are $10.00 for the nine-month academic year; $5.00 per semester. Additional copies of single issues of *The Freeman* are $3.00. For foreign delivery, a donation of $45.00 a year is suggested to cover mailing costs.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. *The Freeman* is available in microform from University Microfilms, 300 N. Zeeb Rd., Ann Arbor, MI 48106.
COVER ART: Grover Cleveland

PERSPECTIVE

Thoughts on FEE's 50th Anniversary

It is force, not opinion, that queens its way over the world, but it is opinion that looses the force.

—Blaise Pascal, 1670

How to get from here to there—from (to supply a current benchmark on massive government) the U.S. $1.7 trillion budget, over to a widespread reaffirmation of the rule of law, of freedom and free enterprise, in America and throughout the West? That reaffirmation is the challenge that the Foundation for Economic Education has tackled since it was chartered in March 1946.

How has it done so? By seeking to reshape public opinion through such things as seminars and discussion clubs, but in the main through the printed word, through its *Essays on Liberty* early in its career, a variety of books and, for the last 40 years or so, its monthly, *The Freeman*.

In this issue, some early FEE essays—some early roots—are reprinted. The spirit of FEE's founder and first president, Leonard E. Read, who hammered out what he called the Freedom Philosophy, underlies these works.

Why are words and thoughts so pivotal? With words we rule men, said Disraeli. Thought precedes human action, said Mises. Ideas have consequences, said Weaver. The power of ideas through words, spoken or written, on the human mind and hence on the course of human events is incontestable.

That power was seen by St. Paul in his Epistles such as those to the Romans, Corinthians, and Galatians. Through these letters to clusters of early Christians, St. Paul mightily helped convert people to Christianity, extended the New Testament, and became a fountainhead of Christian faith and doctrine.

The power of words is seen further from 1776 through 1783 in Thomas Paine's *The Crisis*. Paine's words still hold true for 1996: *These are the times that try men's souls.*

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George Washington hailed Paine the pamphleteer for helping to forge the American Revolution.

Later on, Alexander Hamilton, John Jay, and James Madison, under the nom de plume of Publius, wrote 85 papers seriatim of *The Federalist*, 1787-1788, mostly aimed at the people of New York State so as to win ratification of the U.S. Constitution as laid down in Philadelphia in 1787.

More periodicals, *The Liberator*, 1831-1866, flowed from the pen of abolitionist William Lloyd Garrison. He favored moral suasion over violence or political involvement. He helped organize the Anti-Slavery Society and was long its president. He opposed the Civil War until the Emancipation Proclamation. He ceased publication of *The Liberator* with the passage of the 13th Amendment barring involuntary servitude.

But a sort of involuntary servitude still persists in America and accounts for the rise of FEE. For example, Washington-based Americans for Tax Reform, led by Grover Norquist, says that the typical American enjoys personal freedom beginning on July 9th when he or she will have paid for the cost of taxes and regulation imposed by government. The Norquist calculation may suggest that today's American is more than half-slave.

In the second half of its century, with public opinion continuing to rule the roost as it has for millennia, FEE carries on its fight to shape that opinion for better ends and means by continuing to promote Leonard Read's boundless optimism and Freedom Philosophy.

—WILLIAM H. PETERSON
Guest Editor

The May 1996 issue of *The Freeman* will be a celebration of 50 years of FEE—and 40 years of *The Freeman*.

In An Ideal America

Every person should be free

. . . to pursue his ambition to the full extent of his abilities, regardless of race or creed or family background.

. . . to associate with whom he pleases for any reason he pleases, even if someone else thinks it's a stupid reason.

. . . to worship God in his own way, even if it isn't "orthodox."

. . . to choose his own trade and to apply for any job he wants—and to quit his job if he doesn't like it or if he gets a better offer.

. . . to go into business for himself, be his own boss, and set his own hours of work—even if it's only three hours a week.

. . . to use his honestly acquired property or savings in his own way— spend it foolishly, invest it wisely, or even give it away.

. . . to offer his services or products for sale on his own terms, even if he loses money on the deal.

. . . to buy or not to buy any service or product offered for sale, even if the refusal displeases the seller.

. . . to disagree with any other person, even when the majority is on the side of the other person.

. . . to study and learn whatever strikes his fancy, as long as it seems to him worth the cost and effort of studying and learning it.

. . . to do as he pleases in general, as long as he doesn't infringe the equal right and opportunity of every other person to do as he pleases.

—LEONARD E. READ, 1898–1983
Founding President of FEE

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The America We Lost

by Mario A. Pei

When I first came to America in 1908, I learned a new meaning of the word "liberty"—freedom from government.

I did not learn a new meaning for "democracy." The European country from which I came, Italy, was at that time as "democratic" as America. It was a constitutional monarchy, with a parliament, free and frequent elections, lots of political parties, and plenty of freedom of religion, speech, press, and assembly.

But my native country was government-ridden. A vast bureaucracy held it in its countless tentacles. Regardless of the party or coalition of parties that might be in power at the moment, the government was everywhere. Wherever one looked, one saw signs of the ever-present government—in the uniforms of numberless royal, rural, and municipal policemen, soldiers, officers, gold-braided functionaries of all sorts. You could not take a step without government intervention.

Many industries and businesses were government-owned and government-run—railroads, telegraphs, salt, and tobacco among them. No agreement, however trivial, was legal unless written on government-stamped paper. If you stepped out of the city into the country and came back with a ham, a loaf of bread, or a bottle of wine, you had to stop at the internal-revenue barriers and pay duty to the government, and so did the farmers who brought in the city's food supply every morning. No business could be started or run without the official sanction of a hundred bureaucrats.

Young people did not dream of going into business for themselves; they dreamed of a modest but safe government job where they would have tenure, security, and a pitiful pension at the end of their plodding careers. There was grinding taxation to support the many government functions and the innumerable public servants. Everybody hated the government—not just the party in power, but the government itself. They had even coined a phrase, "It's pouring—thief of a government!" as though even the evils of nature were the government's fault. Yet, I repeat, the country was democratically run, with all the trappings of a many-party system and all the freedoms of which we in America boast today.

Freedom from Government

America in those days made you open your lungs wide and inhale great gulps of freedom-laden air, for here was one additional freedom—freedom from government.

The government was conspicuous by its very absence. There were no men in uniform, save occasional cops and firemen, no visible bureaucrats, no stifling restrictions, no government monopolies. It was wonderful to get used to the American system: To

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This essay appeared in the Saturday Evening Post *of May 31, 1952, and was republished by the Foundation later that year.*

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learn that a contract was valid if written on the side of a house; that you could move not only from the city to the country but from state to state and never be asked what your business was or whether you had anything to declare; that you could open and conduct your own business, provided it was a legitimate one, without government interference; that you could go from one end of the year to the other and never have contact with the national government, save for the cheery postman who delivered your mail with a speed and efficiency unknown today; that there were no national taxes, save hidden excises and import duties that you did not even know you paid.

In that horse-and-buggy America, if you made an honest dollar, you could pocket it or spend it without having to figure what portion of it you *owed* the government or what possible deductions you could allege against that government's claims. You did not have to keep books and records of every bit of income and expenditure or run the risk of being called a liar and a cheat by someone in authority.

Above all, the national ideal was not the obscure security of a government job, but the boundless opportunity that all Americans seemed to consider their birthright. Those same Americans loved their government then. It was there to help, protect, and defend them, not to restrict, befuddle, and harass them. At the same time, they did not look to the government for a livelihood or for special privileges and handouts. They were independent men in the full sense of the word.

Foreign-born citizens have been watching with alarm the gradual Europeanization of America over the past twenty years. They have seen the growth of the familiar European-style government octopus, along with the vanishing of the American spirit of freedom and opportunity and its replacement by a breathless search for "security" that is doomed to defeat in advance in a world where nothing, not even life itself, is secure.

Far more than the native-born, they are in a position to make comparisons. They see that America is fast becoming a nineteenth-century-model European country. They are asked to believe that this is progress. But they know from bitter experience that it just isn't so. □

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THE FREEMAN
IDEAS ON LIBERTY

Fallacies of Uncritical Multiculturalism

by Tibor R. Machan

Some of the trends in our country are new only if you have very little knowledge of human history. Such is the case with the current multiculturalism craze on our college and university campuses.

The idea is that no culture is better than any other, so it is only fair for us to pay heed to them all. As a consequence, there is now much agitation around the country for dropping the emphasis on the Great Books, since these were written mostly by Europeans. Instead, various campuses are requiring that their students encounter writings from all cultures. Well, not really *all*, since cultures are almost as numerous as people, at least over time. Also, who knows all the cultures that exist now—or even what exactly defines a unified culture. (Should we include the Cosa Nostra? How about the Nazis?)

Now multiculturalism may seem innocent enough, mainly because we tend to think of cultural differences largely in terms of food, dress, music, dance, and customs. And this kind of multiculturalism has always been part of American society. In 1798 a young man, J. M. Holley, wrote to his brother that "the diversity of dress, manners, & customs is greater in America, than in any other country in the world, the reason of which, is very obvious. It is considered as a country where people enjoy liberty and independence; of course, persons from almost every nation in the world, come here as to an assylum from oppression; Each brings with him prejudices in favor of the habits of his own countrymen. . . ." (Quoted in "Endpaper," *New York Times*, November 5, 1995, p. 46.)

While diversity is pervasive in a free society, when it comes to such differences as religious practices, political regimes, forms of jurisprudence, types of marriages, and so forth, one cannot be so uncritical of multiculturalism. In some countries criminals are punished so severely that it is simply intolerable for any society that recognizes individual rights and prizes human decency. Women in certain places are so subservient to men that even to suggest some changes meets with violent rebuffs. Such treatment cannot be dismissed as merely a cultural difference—it does violence to anyone's essential humanity, whether so recognized or not. In many cultures throughout the world children are beaten and tortured in the name of discipline, a practice that would be child abuse in our society. Again, this cultural difference is far from benign.

Interestingly, just at a time when so many people are concerned about other people's sensibilities—so that how we talk about various people is virtually mandated—we also insist that all sorts of different cultures be honored for their various ways of think-

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ing and talking. Yet, if we really honored the way some cultures talk about others, we would have to tolerate contradictory practices. We would at once allow insults to fly, but demand that everyone speak with equal respect about everyone else. The simple fact is that in some cultures it is perfectly acceptable to insult members of other cultures. I know for a fact that in many European and Asian cultures people openly and unhesitatingly debase and deride members of other cultures simply for being different.

Consider, also, how many people in the academic world urge us to honor Native Americans or Indians. Yet, do they realize that there were many different groups of aboriginal people on this continent, not all of them deserving of admiration? Not all Native Americans were equally peaceful and gentle, quite the contrary.

Even African-Americans could not sensibly defend all the practices of their ancestors, some of whom actually spurred on the black slave trade.

The demand for fairness to all cultures is predicated on a misunderstanding, namely, that cultures consist mainly of benign characteristics, nothing mean and nasty. Once we admit that different cultures may exhibit various degrees of evil, not simply benign dissimilarities, it immediately becomes perfectly justified to ask which, on the whole, exhibit the best characteristics. This is not an easy thing to deal with, since what is "best" is itself often unthinkingly determined from within a culture. Few people take the time and trouble to consider more stable and universal standards than those they have picked up in their own cultures.

Yet, the very points multiculturalists are stressing, namely, practicing fairness and paying careful attention, are not embraced everywhere. In certain parts of India people do not give a hoot about fairness and tolerance but proceed to kill anyone who defies local custom. Tolerance of diversity is rare even in Western Europe, outside of the major cosmopolitan cities.

One reason why in most of our universities we have stressed the tradition of the Great Books, focusing, for example, on the works of Greek, European, and British philosophers, is that these thinkers have grappled hard with just the issues that even multiculturalists find irresistible. What is truth? What is justice? What is art? What is knowledge? What is nature? What is God? What is liberty, equality, or order? What is law? What are rights?

Many other cultures, however, have tended to focus their concerns much more narrowly. And the result has been that they remained a tad parochial. In such cultures any suggestion of multiculturalism would meet with ridicule—not even a gesture of consideration would be forthcoming.

So, while it is informative and even courteous to open one's mind to what other people across the world are thinking and doing, it is by no means a forgone conclusion that all these are of equal merit. The very fact that multiculturalism has made its inroads in our culture suggests that ours is indeed something of a special culture, even if its problems are evident as well.

Multiculturalists tend to intimidate us with their suggestion that we are being unfair. Yet, in what other culture would they be able to make such a suggestion, to be carefully listened to, and peacefully debated? □

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THE FREEMAN
IDEAS ON LIBERTY

The Rise of Government and the Decline of Morality

by James A. Dorn

Government and Morality

The growth of government has politicized life and weakened the nation's moral fabric. Government intervention—in the economy, in the community, and in society—has increased the payoff from political action and reduced the scope of private action. People have become more dependent on the State and have sacrificed freedom for a false sense of security.

The most obvious signs of moral decay in America are the prevalence of out-of-wedlock births, the breakup of families, the failure of public education, and the eruption of criminal activity. But there are other signs as well: the decline in civility, the lack of integrity in both public and private life, and the growth of litigation as the chief way to settle disputes.

One cannot blame government for all of society's ills, but there is no doubt that economic and social legislation over the past 50 years has had a negative impact on virtue. Individuals lose their moral bearing when they are not held accountable for their actions. The internal moral compass that normally guides individual behavior will no longer function when the State undermines incentives for moral conduct and blurs the distinction between right and wrong.

More government spending is not the answer to our social, economic, or cultural problems. The task is not to reinvent government or to give politics meaning; the task is to limit government and revitalize civil society. Government meddling will only make matters worse.

If we want to help the disadvantaged, we do not do so by making poverty pay, by restricting markets, by prohibiting school choice, by discouraging thrift, or by sending the message that the principal function of government is to take care of us. Rather, we do so by eliminating social engineering and welfare, by cultivating free markets, and by returning to our moral heritage.

Early Twentieth-Century Virtue: Lessons from the Immigrants

At the turn of the century, there was no welfare state. Family and social bonds were strong, and civil society flourished in numerous fraternal and religious organizations. Total government spending was less than 10 percent of GNP and the federal government's powers were narrowly limited.

Immigrants were faced with material poverty, true, but they were not wretched.

Mr. Dorn is vice president for academic affairs at the Cato Institute and director of Cato's Project on Civil Society. This essay is based on his Chautauqua Institution lecture in 1995.

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There was a certain moral order in everyday life, which began in the home and spread to the outside community. Baltimore's Polish immigrants provide a good example. Like other immigrants, they arrived with virtually nothing except the desire to work hard and to live in a free country. Their ethos of liberty and responsibility is evident in a 1907 housing report describing the Polish community in Fells Point:

> A remembered Saturday evening inspection of five apartments in a house [on] Thames Street, with their whitened floors and shining cook stoves, with the dishes gleaming on the neatly ordered shelves, the piles of clean clothing laid out for Sunday, and the general atmosphere of preparation for the Sabbath, suggested standards that would not have disgraced a Puritan housekeeper.

Yet, according to the report, a typical Polish home consisted "of a crowded one- or two-room apartment, occupied by six or eight people, and located two floors above the common water supply."

Even though wages were low, Polish Americans sacrificed to save and pooled their resources to help each other by founding building and loan associations, as Linda Shopes noted in *The Baltimore Book*. By 1929, 60 percent of Polish families were homeowners—without any government assistance.

Today, after more than 50 years of the welfare state, and after spending $5 trillion on anti-poverty programs since the mid-1960s, Baltimore and other American cities are struggling for survival. Self-reliance has given way to dependence and a loss of respect for persons and property.

The inner-city landscape is cluttered with crime-infested public housing and public schools that are mostly dreadful, dangerous, and amoral—where one learns more about survival than virtue. And the way to survive is not to take responsibility for one's own life and family, but to vote for politicians who have the power to keep the welfare checks rolling. Dysfunctional behavior now seems almost normal as people are shot daily and the vast majority of inner-city births are to unwed mothers receiving Aid to Families with Dependent Children. In addition to the moral decay, high tax rates and regulatory overkill have driven businesses and taxpayers out of the city and slowed economic development. It's not a pretty picture.

In sum, the growth of government and the rise of the "transfer society" have undermined the work ethic and substituted an ethos of dependence for an ethos of liberty and responsibility. Virtue and civil society have suffered in the process, as has economic welfare.

The Role of Government: Conflicting Visions

Market-Liberal Vision. From a classical-liberal perspective, the primary functions of government are to secure "the blessings of liberty" and "establish justice"—not by mandating outcomes, but by setting minimum standards of just conduct and leaving individuals free to pursue their own values within the law. The "sum of good government," wrote Jefferson, is to "restrain men from injuring one another," to "leave them . . . free to regulate their own pursuits of industry and improvement," and to "not take from the mouth of labor the bread it has earned."

The Jeffersonian philosophy of good government was widely shared in nineteenth-century America. Indeed, Jeffersonian democracy became embodied in what John O'Sullivan, editor of the *United States Magazine and Democratic Review*, called the "voluntary principle" or the "principle of freedom." In 1837, O'Sullivan wrote,

> The best government is that which governs least. . . . [Government] should be confined to the administration of justice, for the protection of the natural equal rights of the citizen, and the preservation of the social order. In all other respects, the voluntary principle, the principle of freedom . . . affords the true golden rule.

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During the nineteenth century, most Americans took it for granted that the federal government had no constitutional authority to engage in public charity (i. e., to legislate forced transfers to help some individuals at the expense of others). It was generally understood that the powers of the federal government were delegated, enumerated, and therefore limited, and that there was no explicit authority for the welfare state. In 1794, Madison expressed the commonly held view of the welfare state: "I cannot undertake to lay my finger on that article of the Constitution which grant[s] a right to Congress of expending, on objects of benevolence, the money of their constituents." From a classical-liberal or market-liberal perspective, then, the role of government is not to "do good at taxpayers' expense," but "to prevent harm" by establishing rules of just conduct and a rule of law.

The general welfare clause (art. 1, sec. 8) of the U.S. Constitution cannot be used to justify the welfare state. That clause simply states that the federal government, in exercising its enumerated powers, should exercise them to "promote the general welfare," not to promote particular interests. The clause was never meant to be an open invitation to expand government far beyond its primary role of night watchman.

"With respect to the words 'general welfare,'" wrote Madison, "I have always regarded them as qualified by the detail of powers connected with them. To take them in a literal and unlimited sense would be a metamorphosis of the Constitution into a character which there is a host of proofs was not contemplated by its creators."

Yet, what Madison feared happened—as his vision of government was overtaken by the views of people who sought to use government, not to prevent harm, but to "do good" at taxpayers' expense.

Modern Liberal Vision. The transformation of the Framers' constitutional vision began with the Progressive Era, accelerated with the New Deal, and mushroomed with the Great Society's War on Poverty, which created new entitlements and enshrined welfare rights. Today, more than half the federal budget is spent on entitlements, and social welfare spending is 14 percent of GNP.

During the transition from limited government to the welfare state, freedom has come to mean freedom from responsibility. Such freedom, however, is not true freedom but a form of tyranny, which creates moral and social chaos.

The modern liberal's vision of government is based on a twisted understanding of rights and justice—an understanding that clashes with the principle of freedom inherent in the higher law of the Constitution. Welfare rights or entitlements are "imperfect rights" or pseudo-rights; they cannot be exercised without violating what legal scholars call the "perfect right" to private property. Rights to welfare—whether to food stamps, public housing, or medical care—create a legal obligation to help others. In contrast, the right to property, understood in the Lockean sense, merely obligates individuals to refrain from taking what is not theirs—namely, the life, liberty, or estate of another.

For the modern liberal, justice refers to distributive justice or social justice. But "social justice" is a vague term, subject to all sorts of abuse if made the goal of public policy. Indeed, when the role of government is to do good with other people's money, there is no end to the mischief government can cause.

Many Americans seem to have lost sight of the idea that the role of government is not to instill values, but to protect rights that are consistent with a society of free and responsible individuals. We have a right to pursue happiness, but there can be no legal guarantee that we will obtain it without depriving others of their liberty and their property.

When democracy becomes unlimited, the power of government becomes unlimited, and there is no end to the demands on the public purse. Democracy then becomes crude majoritarianism in which the "winners" are allowed to impose their will and vision of the "good society" on everyone else. In such a system politics becomes a fight of all against all, like the Hobbesian

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jungle, and nearly everyone is a net loser as taxes rise, deficits soar, and economic growth slows.

Bankruptcy of the Welfare State

Most voters recognize that the welfare state is inefficient and that there is a built-in incentive to perpetuate poverty. It should be common sense that when government promises something for nothing, demand will grow and so will the welfare state. Indeed, total government spending on social welfare is now over $1 trillion per year. Yet only $1 of every $6 of social welfare spending goes to families with less than poverty-level incomes. For all the money spent on fighting poverty since 1965, about $5 trillion, the official poverty rate has remained roughly the same, about 14 percent. Government waste, however, is only part of the problem; the welfare state is also intellectually, morally, and constitutionally bankrupt.

Intellectually Bankrupt. It is intellectually bankrupt because increasing the scope of market exchange, not aid, is the only viable way to alleviate poverty. The best way to help the poor is not by redistributing income but by generating economic growth. Poverty rates fell more before the War on Poverty when economic growth was higher.

The failure of Communism shows that any attenuation of private property rights weakens markets and reduces choice. Individual welfare is lowered as a result. The welfare state has attenuated private property rights and weakened the informal rules of manners and morals that make life worthwhile. Real growth has slowed as a result. From 1889 through 1919, real growth averaged 4 percent per year while government consumed 10 percent of GNP. From 1973 through 1992, however, real growth averaged only 2.3 percent while government consumed 36 percent of GNP.

Morally Bankrupt. In addition to being inefficient and intellectually bankrupt, the welfare state is morally bankrupt. In a free society, people are entitled to what they own, not to what others own. Yet, under the pretense of morality, politicians and advocacy groups have made the "right to welfare" the accepted dogma of a new state religion, in which politicians are the high priests and self-proclaimed "benefactors" of humanity.

But "the emperor has no clothes": politicians pretend to "do good," but they do so with other people's money. Politicians put on their moral garb, but there is really nothing there. Government benevolence, in reality, is a naked taking. Public charity is forced charity, or what the great French liberal Frederic Bastiat called "legal plunder"; it is not a virtue but a vice.

Constitutionally Bankrupt. The welfare state is also constitutionally bankrupt; it has no basis in the Framers' Constitution of liberty. By changing the role of government from a limited one of protecting persons and property to an unlimited one of achieving "social justice," Congress, the courts, and the president have broken their oaths to uphold the Constitution.

In contrast, Congressman Davy Crockett, who was elected in 1827, told his colleagues, "We have the right, as individuals, to give away as much of our own money as we please in charity; but as members of Congress we have no right to appropriate a dollar of the public money."

What Should Be Done?

Polls show that three of four Americans distrust government and that more young people believe in UFOs than in the future of Social Security. Those sentiments express a growing skepticism about the modern liberal state. What should be done?

First, and foremost, we need to expose the intellectual, constitutional, and moral bankruptcy of the welfare state. We need to change the way we think about government and restore an ethos of liberty and responsibility. The political process can then begin changing the direction of government and rolling back the welfare state.

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America has a great future, but that future is endangered by a federal government that has become bloated and unable to perform even its rudimentary functions. The collapse of Communism and the failure of socialism should have been warning enough that it is time to change direction.

It is time to get government out of the business of charity and to let private virtue, responsibility, and benevolence grow along with civil society—just as they did more than 150 years ago when Alexis de Tocqueville, in his great study of *Democracy in America*, wrote:

> When an American asks for the cooperation of his fellow citizens it is seldom refused, and I have often seen it afforded spontaneously and with great good will. . . . If some great and sudden calamity befalls a family, the purses of a thousand strangers are at once willingly opened, and small but numerous donations pour in to relieve their distress.

Welfare reform is in the air, but the elimination of the welfare state is still considered heresy by most politicians. They consider themselves "benefactors," albeit with other people's money. Yet the role of government is not to legislate morality—an impossible and dangerous goal—or even to "empower people"; the role of government is to allow people the freedom to grow into responsible citizens and to exercise their inalienable rights.

During the past 50 years, the welfare state has divorced freedom from responsibility and created a false sense of morality. Good intentions have led to bad policy. The moral state of the union can be improved by following two simple rules: "Do no harm" and "do good at your own expense." Those rules are perfectly consistent in the private moral universe. It is only when the second rule is replaced by "Do good at the expense of others" that social harmony turns into chaos as interest groups compete at the public trough for society's scarce resources. □

The power of one.

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The Guaranteed Life

by Maxwell Anderson

"A government is a group of men organized to sell protection to the inhabitants of a limited area at monopolistic prices." So said Peter Stuyvesant in *Knickerbocker Holiday*, and so I believe now. In other words there's no such thing as a "good" government; one and all they partake of the nature of rackets. But government is better than anarchy, and was invented as insurance against anarchy. And some kinds of government are far better than others. Specifically, our American experiment has worked so well that we can point to it as one of the most successful in the history of the world, if not the most successful.

In *Knickerbocker Holiday* I tried to remind the audience of the attitude toward government which was prevalent in this country at the time of the revolution of 1776 and throughout the early years of the republic. At that time it was generally believed, as I believe now, that the gravest and most constant danger to a man's life, liberty, and happiness is the government under which he lives.

It was believed then that a civilization is a balance of selfish interests, and that a government is necessary as an arbiter among these interests, but that the government must never be trusted, must be constantly watched, and must be drastically limited in its scope, because it, too, is a selfish interest and will automatically become a monopoly in crime and devour the civilization over which it presides unless there are definite and positive checks on its activities.

The Constitution is a monument to our forefathers' distrust of the State, and the division of powers among the legislative, judicial, and executive branches succeeded so well for more than a century in keeping the sovereign authority in its place that our government has become widely regarded as a naturally wise and benevolent institution, capable of assuming the whole burden of social and economic justice. But there was nothing natural or accidental about it. Our government has done so well because of the wary thinking that went into its making.

A Selfish Interest

The thinking behind our Constitution was dominated by such men as Franklin and Jefferson, men with a high regard for the rights of the individual, combined with a cold and realistic attitude toward the blessings of central authority. Knowing that government is a selfish interest, they treated it as such, and asked of it no more than a selfish interest can give.

But the coddled young reformer of our day, looking out on his world, finding merit often unrewarded and chicanery trium-

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This essay was first written as a preface to his Knickerbocker Holiday *in 1938. It was rewritten in 1950 and published as a FEE "In Brief" pamphlet.*

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phant, throws prudence to the winds and grasps blindly at any weapon which seems to him likely to destroy the purse-proud haves and scatter their belongings among the deserving have-nots. Now he is right in believing that the accumulation of too much wealth and power in a few hands is a danger to his civilization and his liberty. But when the weapon he finds is economic planning, and when the law he enacts sets up bureaus to run the nation's business, he is fighting a lesser evil by accepting a greater and more deadly one, and he should be aware of that fact.

Monopolistic Prices

A government is always "organized to sell protection to the inhabitants of a limited area at monopolistic prices." The members of a government are not only in business, but in a business which is in continual danger of lapsing into pure gangsterism, pure terrorism and plundering, buttered over at the top by a hypocritical pretense at patriotic unselfishness. The continent of Europe has seen too many such governments lately, and our own government is rapidly assuming economic and social responsibilities which take us in the same direction.

Whatever the motives behind a government-dominated economy, it can have but one result, a loss of individual liberty in thought, speech, and action. A guaranteed life is not free. Social security is a step toward the abrogation of the individual and his absorption into that robot which he has invented to serve him—the paternal state.

When I have said this to some of the youthful proponents of guaranteed existence, I have been met with the argument that men must live, and that when the economic machinery breaks down, men must be cared for lest they starve or revolt. This is quite true, and nobody is opposed to helping his fellow man. But the greatest enemies of democracy, the most violent reactionaries, are those who have lost faith in the capacity of a free people to manage their own affairs and wish to set up the government as a political and social guardian, running their business and making their decisions for them. This is statism, or Stalinism, no matter who advocates it, and it's plain treason to freedom.

Ward of the State

And life is infinitely less important than freedom. A free man has a value to himself and perhaps to his time; a ward of the state is useless to himself—useful only as so many foot-pounds of energy serving those who manage to set themselves above him. A people which has lost its freedom might better be dead, for it has no importance in the scheme of things except as an evil power behind a dictator. In our hearts we all despise the man who wishes the state to take care of him, who would not rather live meagerly as he pleases than suffer a fat and regimented existence. Those who are not willing to sacrifice their lives for their liberty have never been worth saving. Throughout remembered time every self-respecting man has been willing to defend his liberty with his life.

If our country goes totalitarian out of a soft-headed humanitarian impulse to make life easy for the many, we shall get what we vote for and what we deserve, for the choice is still before us, but we shall have betrayed the race of men, and among them the very have-nots whom we subsidize. Our Western continent still has the opportunity to resist the government-led rush of barbarism which is taking Europe back toward Attila, but we can only do it by running our government, and by refusing to let it run us.

If the millions of workingmen in this country who are patiently paying their Social Security dues could glimpse the bureaucratic absolutism which that act presages for themselves and their children they would repudiate the whole monstrous and dishonest business overnight. When a government takes over a people's economic life it becomes absolute, and when it has become absolute it destroys the arts, the minds, the liberties, and the meaning of the people it governs. It is not an accident that Germany, the first paternalistic state of modern Eu-

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rope, was seized by an uncontrollable dictator who brought on the second world war; not an accident that Russia, adopting a centrally administered economy for humanitarian reasons, has arrived at a tyranny bloodier and more absolute than that of the Czars. . . . Men who are fed by their government will soon be driven down to the status of slaves or cattle.

All these dangers were foreseen by the political leaders who put our Constitution together after the revolution against England. The Constitution is so built that while we adhere to it we cannot be governed by one man or one faction, and when we have made mistakes we reserve the right to change our minds. The division of powers and the rotation of offices were designed to protect us against dictatorship and arbitrary authority. The fact that there are three branches of government makes for a salutary delay and a blessed inefficiency, the elective rotation makes for a government not by cynical professionals, but by normally honest and fairly incompetent amateurs.

That was exactly what the wary old founding fathers wanted, and if we are wise we shall keep it, for no scheme in the history of the world has succeeded so well in maintaining the delicate balance between personal liberty and the minimum of authority which is necessary for the free growth of ideas in a tolerant society. But we shall not keep our Constitution, our freedom, nor our free elections, if we let our government slide gradually into the hands of economic planners who bribe one class of men after another with a state-administered dole.

Since *Knickerbocker Holiday* was written, the power of government in the United States has grown like a fungus in wet weather, price supports and unemployment benefits and farm subsidies are the rule, not the exception, and our government has turned into a giant give-away program, offering far more for votes than was ever paid by the most dishonest ward-heeler in the days of Mark Hanna. . . .

The guaranteed life turns out to be not only not free—it's not safe. □

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My Kind of President

When historians are asked to grade the men who have served as America's presidents, they usually give high marks to the so-called "activist" ones—those who expanded the frontiers of the central government, pushed taxes and spending higher, and left a mark on the country by foisting vast new bureaucracies on future generations.

I prefer activist presidents, too, though of a different variety. I give high marks to those presidents who actively sought to uphold the Constitution, and who worked to expand the frontiers of freedom. I'll take a president who leaves us alone over one who can't keep his hands out of other people's pockets any day of the week. Honesty, frugality, candor, and a love for liberty are premium qualities in *my* kind of president.

The one man among post-war presidents (post-*Civil* War, that is) who exemplified those qualities best was Grover Cleveland, who remains the only man ever to serve two nonconsecutive terms in the White House. This month marks the 159th anniversary of his birth in Caldwell, New Jersey.

When Grover Cleveland was elected mayor of Buffalo in 1881, few people outside of western New York had ever heard of him. A year later, he was elected Governor of the state. Two years after that, in 1884, Americans made him their 22nd president. They did it again in 1892. In his Pulitzer Prize-winning biography *Grover Cleveland: A Study in Courage*, Allan Nevins described the traits that explain such a meteoric political career:

> In Grover Cleveland the greatness lies in typical rather than unusual qualities. . . . He possessed honesty, courage, firmness, independence, and common sense. But he possessed them in a degree that others did not. His honesty was of the undeviating type which never compromised an inch; his courage was immense, rugged, unconquerable; his independence was elemental and self-assertive. . . . Under storms that would have bent any man of lesser strength he ploughed straight forward, never flinching, always following the path that his conscience approved to the end.

Cleveland said what he meant and meant what he said. He did not lust for political office and never felt he had to cut corners or equivocate or connive in order to get elected. A man who knew where he stood, he was so forthright and plain-spoken that he makes Harry Truman seem like an indecisive waffler by comparison.

Cleveland took a firm stand against a nascent welfare state. Frequent warnings against the redistributive nature of government were characteristic of his tenure. He regarded as a "serious danger" the notion that government should dispense favors and

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advantages to individuals or their businesses.

In vetoing a bill in 1887 that would have appropriated a mere $10,000 in aid for drought-stricken Texas farmers, Cleveland noted that "though the people support the Government, the Government should not support the people." For relief of citizens in misfortune, the president felt it was important to rely upon "the friendliness and charity of our countrymen."

That veto was one of many. In fact, Cleveland in his first term refused to sign twice as many bills as did all previous 21 presidents *combined*. Most of those bills were nothing more than cynical attempts by somebody to get something from somebody else by the force of the government's gun.

He struck down one river or harbor improvement bill after another. Disdainful of pork barrel politics, he felt that those who would use and gain from such projects should pay for them.

Cleveland broke with the common practice of presidents' bloating the federal bureaucracy with their cronies. As the first Democrat to win the White House since James Buchanan in 1856, he was expected by many in his party to pass out the plush government jobs they longed for. But those who longed for patronage underestimated Cleveland's commitment to good, clean, and limited government. He maintained the highest standards, making appointments when necessary and then, only of those whose character and qualifications were beyond reproach.

Close political advisers strongly urged Cleveland in 1887 to avoid pushing for lower tariffs until after the following year's election. Too risky, they told him. But the president's mind was made up and in characteristic fashion he said so. "I did not wish to be re-elected without having the people understand just where I stood . . . and then spring the question on them after my re-election," he later declared. He rightly argued that tariffs stifle competition, raise prices, and violate the people's freedom to patronize the sellers of their choice.

On the matter of a sound currency, Cleveland stood firm as a mountain. It was, in fact, the paramount issue of his second term. Debtor farmers, silver mining interests, and inflationist quacks—during the terms of other presidents—had secured passage of laws that belched out depreciated silver currency and ballooned the nation's paper money supply. With the country's financial system reeling from Congress's monetary mismanagement, Cleveland defended the gold standard as a matter of honesty and integrity.

Even in foreign policy, Cleveland's instincts were principled and sound. He was a noninterventionist who thought that other nations should keep to their own legitimate business too. He invoked the Monroe Doctrine and suppressed Great Britain's territorial ambitions in this hemisphere, particularly its phony claims against Venezuela. He canceled President Harrison's proposal to the Senate for annexing Hawaii, arguing that America had no right to acquire the islands by engineering the overthrow of Queen Liliuokalani.

Grover Cleveland wasn't perfect. Under the illusion that reasonable regulation would undo the harm that railroads had done with the subsidies and privileges that previous administrations had given them, he signed into law the bill that created the Interstate Commerce Commission. He did not anticipate the anti-competitive force the ICC eventually became.

Cleveland was also persuaded to take an obscure bureau from within the government and make it the new Department of Agriculture in his first term. In his second term, however, he whacked away at its budget and canceled programs that bestowed free seeds and other handouts on farmers.

This year marks the one hundredth anniversary of Grover Cleveland's last full year in office. As Americans prepare to choose another president, they would do well to ponder the reasons why their ancestors picked this one twice. □

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THE FREEMAN
IDEAS ON LIBERTY

America's Other Democracy

by William H. Peterson

Leonard Read used to tell the story of a shopper in a crowded department store during the Christmas rush. After buying some gifts, she forges her way to the gift-wrap counter, telling the clerk how jammed the store is. "Yes," says the clerk, "it's our *best* day so far." Then the shopper walks over to the post office to mail her gift packages, again remarking to a clerk on the crowd in the post office. "Yes," muttered the clerk, "it's our *worst* day so far."

The Read story ties into the partisan fracas over the federal budget, a fracas between those who would "reinvent" government and those who would "disinvent" it. Initially, the disinventors would eliminate the U.S. Commerce, Energy, and Education Departments and some 300 programs, including funding for the National Endowment for the Arts and the Corporation for Public Broadcasting. Down would go a big chunk of government.

Reinventors shake their heads and ask: But what, if anything, takes the place of that chunk?

The answer, it seems to me, swings on perceiving and re-evaluating what amounts to America's second democracy. This is a largely undiscerned sector under the rule of law which in important respects is larger than the first.

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Think about it: There's a dominion within our dominion that works without pork, taxes, political parties, bureaucratic chicanery, and government waste. What is more, this second democracy, while hardly perfection, is strictly voluntary, self-regulating, and a lot more moral than the first democracy. On the critical matters of consent and participation, this second democracy also wins hands down.

Well, where is this unsung Shangri-La where the people themselves command and control, direct and manage a slew of hierarchies of authority?

It's all around, under your nose, as near as your telephone from which you can call a doctor or plumber, or order a pizza or airline tickets. This democracy is the common—if unrealized and unappreciated—*marketplace*. Indeed, it's the whole private sector.

Consider. In America's first democracy 104 million votes were cast in the last Presidential election. In the second democracy, *billions* of votes are cast *daily* to make phone calls or watch TV or pay rent or use some other market facility such as a bank, restaurant, gas station, motel, newspaper, coin laundry, supermarket, brokerage office, country club, corner bar, and now interactive TV or the modemized PC. Throughout, dollars are ballots.

The Miracle of the Market

Note that every day is Election Day in the marketplace, that it is based on free choice,

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that it regulates itself with high prices encouraging supply and discouraging demand, with low prices discouraging supply and encouraging demand. Free prices thus ever adjust to new conditions, erasing shortages and surpluses as they develop—unheard of in the first democracy.

This is the ordinary extraordinary market which Nobel Laureate F. A. Hayek called a "marvel." Marvelous to behold for its inherent dynamics and growth. Said Thomas Paine in his *Rights of Man* in 1791: "Society performs for itself almost everything which is ascribed to government."

Note too that in marketplace democracy every producer-candidate is held strictly accountable, that he runs scared all the time, that he daily tries to score with a better product at less cost for the sovereign consumer—sovereign because of his life-or-death power of the purse. (Importantly, the sovereign consumer includes the business consumer.)

Indeed, the consumer is king or queen, an absolute monarch ruling this second dominion with an iron hand. Ordering this. Ordering that. Literally. Even lethally. Your mother (or grandmother or great-grandmother, depending on your age) did in the iceman in the 1920s and 1930s. How? She and millions of her cohorts switched their votes—and bought refrigerators, and today the iceman cometh no longer.

Reinventors complain about America's inequality of wealth. But they don't mention how this wealth is put to work for all Americans—and at risk. As Ludwig Mises says in *Human Action*: "Ownership of the means of production is not a privilege, but a social liability."

Mises explains that savers, investors, landowners, and all other owners of wealth are prompted by self-interest to place their property at the highest possible advantage to the consumers. If the capitalists are slow or inept in advantaging the consumers, they incur losses. And if they don't mend their ways, they lose their wealth. Among corporate giants who lost market share and had to play catch-up: IBM, General Motors, Sears, Xerox.

Too, with the marketplace invariably based on individual consent, it reflects social cooperation and peaceful dealing even with local tensions. Hindus and Muslims, for example, trade with each other—that is, vote for each other—in Calcutta, as do Catholics and Protestants in Belfast, Arabs and Jews in Jerusalem, blacks and whites in Johannesburg.

In a similar vein, says a wise old IBM slogan: "World Peace Through World Trade." Indeed. So sip your tea from Sri Lanka, drive your car with gasoline refined from oil from Kuwait, eat a banana from Ecuador, enjoy your wine from France, your camera from Japan, your furniture from Finland, your cocoa from the Ivory Coast. Millions of people who are strangers help each other, cooperate with each other, depend on each other. What world leader has achieved such remarkably harmonious domestic and international collaboration across the globe?

To be sure, government is essential to safeguard life, liberty, and property—otherwise we'd plunge into anarchy. But the core problem of the last 66 years of hyperactive, interventionist government reaches beyond deficit spending and heavy inflation; it is this:

Expansion of the first democracy means diminution of the second—the shrinkage of freedom and free enterprise.

Yet the Father-Knows-Best state stretches from the Davis-Bacon Act to Social Security, from Medicare to the Environmental Protection Agency, from the Federal Deposit Insurance Corporation to the Fair Labor Standards Act to the progressive income tax, to thousands of other state interventions, all highly politicized, all impeding social cooperation.

These interventions are at odds with the Mises concept of market-driven economic calculation whose lack befuddles state planners and regulators. This lack is the Achilles' heel of socialism and interventionism. Nonetheless, state interventions persist, boomerang, make things worse, set back the second democracy and a key principle of a free society—consent by the individual. □

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Inequality of Wealth and Incomes

by Ludwig von Mises

The market economy—capitalism—is based on private ownership of the material means of production and private entrepreneurship. The consumers, by their buying or abstention from buying, ultimately determine what should be produced and in what quantity and quality. They render profitable the affairs of those businessmen who best comply with their wishes and unprofitable the affairs of those who do not produce what they are asking for most urgently. Profits convey control of the factors of production into the hands of those who are employing them for the best possible satisfaction of the most urgent needs of the consumers, and losses withdraw them from the control of the inefficient businessmen. In a market economy not sabotaged by the government the owners of property are mandataries of the consumers as it were. On the market a daily repeated plebiscite determines who should own what and how much. It is the consumers who make some people rich and other people penniless.

Inequality of wealth and incomes is an essential feature of the market economy. It is the implement that makes the consumers supreme in giving them the power to force all those engaged in production to comply with their orders. It forces all those engaged in production to the utmost exertion in the service of the consumers. It makes competition work. He who best serves the consumers profits most and accumulates riches.

In a society of the type that Adam Ferguson, Saint-Simon, and Herbert Spencer called militaristic and present-day Americans call feudal, private property of land was the fruit of violent usurpation or of donations on the part of the conquering warlord. Some people owned more, some less and some nothing because the chieftain had determined it that way. In such a society it was correct to assert that the abundance of the great landowners was the corollary of the indigence of the landless.

But it is different in a market economy. Bigness in business does not impair, but improves the conditions of the rest of the people. The millionaires are acquiring their fortunes in supplying the many with articles that were previously beyond their reach. If laws had prevented them from getting rich, the average American household would have to forgo many of the gadgets and facilities that are today its normal equipment. This country enjoys the highest standard of living ever known in history because for several generations no attempts were made toward "equalization" and "redistri-

Professor Mises (1881-1973), one of the century's pre-eminent economic thinkers, was academic adviser to The Foundation for Economic Education from 1946 until his death.

This article first appeared in the May 1955 issue of Ideas on Liberty, *published by FEE.*

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bution." Inequality of wealth and incomes is the cause of the masses' well-being, not the cause of anybody's distress. Where there is a "lower degree of inequality," there is necessarily a lower standard of living of the masses.

Demand for "Distribution"

In the opinion of the demagogues inequality in what they call the "distribution" of wealth and incomes is in itself the worst of all evils. Justice would require an equal distribution. It is therefore both fair and expedient to confiscate the surplus of the rich or at least a considerable part of it and to give it to those who own less. This philosophy tacitly presupposes that such a policy will not impair the total quantity produced. But even if this were true, the amount added to the average man's buying power would be much smaller than extravagant popular illusions assume. In fact the luxury of the rich absorbs only a slight fraction of the nation's total consumption.

The much greater part of the rich men's incomes is not spent for consumption, but saved and invested. It is precisely this that accounts for the accumulation of their great fortunes. If the funds which the successful businessmen would have ploughed back into productive employments are used by the state for current expenditure or given to people who consume them, the further accumulation of capital is slowed down or entirely stopped. Then there is no longer any question of economic improvement, technological progress, and a trend toward higher average standards of living.

When Marx and Engels in the *Communist Manifesto* recommended "a heavy progressive or graduated income tax" and "abolition of all right of inheritance" as measures "to wrest, by degrees, all capital from the bourgeoisie," they were consistent from the point of view of the ultimate end they were aiming at, viz., the substitution of socialism for the market economy. They were fully aware of the inevitable consequences of these policies. They openly declared that these measures are "economically untenable" and that they advocated them only because "they necessitate further inroads" upon the capitalist social order and are "unavoidable as a means of entirely revolutionizing the mode of production," i.e., as a means of bringing about socialism.

But it is quite a different thing when these measures which Marx and Engels characterized as "economically untenable" are recommended by people who pretend that they want to preserve the market economy and economic freedom. These self-styled middle-of-the-road politicians are either hypocrites who want to bring about socialism by deceiving the people about their real intentions, or they are ignoramuses who do not know what they are talking about. For progressive taxes upon incomes and upon estates are incompatible with the preservation of the market economy.

The middle-of-the-road man argues this way: "There is no reason why a businessman should slacken in the best conduct of his affairs only because he knows that his profits will not enrich him but will benefit all people. Even if he is not an altruist who does not care for lucre and who unselfishly toils for the common weal, he will have no motive to prefer a less efficient performance of his activities to a more efficient. It is not true that the only incentive that impels the great captains of industry is acquisitiveness. They are no less driven by the ambition to bring their products to perfection."

Supremacy of the Consumers

This argumentation entirely misses the point. What matters is not the behavior of the entrepreneurs but the supremacy of the consumers. We may take it for granted that the businessmen will be eager to serve the consumers to the best of their abilities even if they themselves do not derive any advantage from their zeal and application. They will accomplish what according to their opinion best serves the consumers. But then it will no longer be the consumers that determine what they get. They will have to

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take what the businessmen believe is best for them. The entrepreneurs, not the consumers, will then be supreme. The consumers will no longer have the power to entrust control of production to those businessmen whose products they like most and to relegate those whose products they appreciate less to a more modest position in the system.

If the present American laws concerning the taxation of the profits of corporations, the incomes of individuals and inheritances had been introduced about sixty years ago, all those new products whose consumption has raised the standard of living of the "common man" would either not be produced at all or only in small quantities for the benefit of a minority. The Ford enterprises would not exist if Henry Ford's profits had been taxed away as soon as they came into being. The business structure of 1895 would have been preserved. The accumulation of new capital would have ceased or at least slowed down considerably. The expansion of production would lag behind the increase of population. There is no need to expatiate about the effects of such a state of affairs.

Profit and loss tell the entrepreneur what the consumers are asking for most urgently. And only the profits the entrepreneur pockets enable him to adjust his activities to the demand of the consumers. If the profits are expropriated, he is prevented from complying with the directives given by the consumers. Then the market economy is deprived of its steering wheel. It becomes a senseless jumble.

People can consume only what has been produced. The great problem of our age is precisely this: Who should determine what is to be produced and consumed, the people or the State, the consumers themselves or a paternal government? If one decides in favor of the consumers, one chooses the market economy. If one decides in favor of the government, one chooses socialism. There is no third solution. The determination of the purpose for which each unit of the various factors of production is to be employed cannot be divided.

Demand for Equalization

The supremacy of the consumers consists in their power to hand over control of the material factors of production and thereby the conduct of production activities to those who serve them in the most efficient way. This implies inequality of wealth and incomes. If one wants to do away with inequality of wealth and incomes, one must abandon capitalism and adopt socialism. (The question whether any socialist system would really give income equality must be left to an analysis of socialism.)

But, say the middle-of-the-road enthusiasts, we do not want to abolish inequality altogether. We want merely to substitute a lower degree of inequality for a higher degree.

These people look upon inequality as upon an evil. They do not assert that a definite degree of inequality which can be exactly determined by a judgment free of any arbitrariness and personal evaluation is good and has to be preserved unconditionally. They, on the contrary, declare inequality in itself as bad and merely contend that a lower degree of it is a lesser evil than a higher degree in the same sense in which a smaller quantity of poison in a man's body is a lesser evil than a larger dose. But if this is so, then there is logically in their doctrine no point at which the endeavors toward equalization would have to stop.

Whether one has already reached a degree of inequality which is to be considered low enough and beyond which it is not necessary to embark upon further measures toward equalization, is just a matter of personal judgments of value, quite arbitrary, different with different people and changing in the passing of time. As these champions of equalization appraise confiscation and "redistribution" as a policy harming only a minority, viz., those whom they consider to be "too" rich, and benefiting the rest—the majority—of the people, they cannot oppose any tenable argument to those who are asking for more of this allegedly beneficial policy. As long as any degree of inequality is left, there will always be people whom

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envy impels to press for a continuation of the equalization policy. Nothing can be advanced against their inference: If inequality of wealth and incomes is an evil, there is no reason to acquiesce in any degree of it, however low; equalization must not stop before it has completely leveled all individuals' wealth and incomes.

The history of the taxation of profits, incomes and estates in all countries clearly shows that once the principle of equalization is adopted, there is no point at which the further progress of the policy of equalization can be checked. If, at the time the Sixteenth Amendment was adopted, somebody had predicted that some years later the income tax progression would reach the height it has really attained in our day, the advocates of the Amendment would have called him a lunatic. It is certain that only a small minority in Congress will seriously oppose further sharpening of the progressive element in the tax rate scales if such a sharpening should be suggested by the Administration or by a congressman anxious to enhance his chances for re-election. For, under the sway of the doctrines taught by contemporary pseudo-economists, all but a few reasonable men believe that they are injured by the mere fact that their own income is smaller than that of other people and that it is not a bad policy to confiscate this difference.

There is no use in fooling ourselves. Our present taxation policy is headed toward a complete equalization of wealth and incomes and thereby toward socialism. This trend can be reversed only by the cognition of the role that profit and loss and the resulting inequality of wealth and incomes play in the operation of the market economy. People must learn that the accumulation of wealth by the successful conduct of business is the corollary of the improvement of their own standard of living and vice versa. They must realize that bigness in business is not an evil, but both the cause and effect of the fact that they themselves enjoy all those amenities whose enjoyment is called the "American way of life." □

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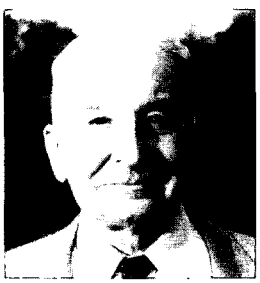

LIBERALISM: The Classical Tradition

By Ludwig von Mises

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LIBERALISM: The Classical Tradition by Ludwig von Mises neatly sums up the ideas and principles of nineteenth-century classical liberalism as they apply to the twentieth century. First published in Germany in 1927, *Liberalism* was published in the United States under the title *The Free and Prosperous Commonwealth* in 1962 and reissued in the mid-seventies by The Institute for Humane Studies. Republished by FEE in 1985; 2nd printing 1995.

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THE FREEMAN
IDEAS ON LIBERTY

Competition and Cooperation

by Donald J. Boudreaux and Hugh Macaulay

Free-market competition is often described as "cutthroat" and "wasteful." "Dog-eat-dog" rivalries are fueled by "greedy self-interests" operating according to "the law of the jungle" in which "survival of the fittest" is the only rule. In contrast, government regulation is said to have the potential to promote genuine cooperation in which citizens "pull together" to advance the common good. On the rhetorical battlefield, "competition" is too often out-gunned by "cooperation."

But those who deplore free-market competition simply do not understand it. Competitive markets excel at promoting cooperation. Indeed, to succeed in the market requires great cooperative skills.

Adam Smith described how a person buying a wool coat gains his comfort as a result of the willing cooperative efforts of many workers in widely varied activities—from raising sheep to spinning yarn to retailing. Every wool coat requires that very large numbers of people coordinate their efforts—cooperate—in production and distribution. Perhaps more famously, Leonard Read told of the pencil—an apparently simple device whose existence would be impossible without the cooperation of countless people and firms from around the globe.

Still, private firms selling coats and pencils are described as competitive, not as cooperative. And so they are in a genuine sense. Each firm, each producer, competes for the advantage of satisfying consumer demands. But these firms are no less cooperative. A mistake made by those who condemn competitive capitalism is to assume that competition and cooperation are two alternative means of achieving some end. Alternatives they are not. Competition and cooperation are not only complementary human relationships—each is an unavoidable reality of human society. A mark of a peaceful and prosperous society is that both competition and cooperation are channeled into their appropriate realms.

The Principal Realm of Each Activity

A symphony orchestra is an unequaled example of cooperation, yet competition has a role to play even in orchestras. Different musicians compete for each seat in the orchestra, just as different conductors compete to be maestro. Moreover, different orchestras compete for the privilege of making recordings with prestigious recording studios. Football and baseball teams parallel orchestras in these respects: different players compete for slots on the team, and different teams compete against each other for the championship. And although less obvious, the production of steel, the operation of a department store, and the publication of a magazine all involve *both* cooperation and competition. Competition and cooperation are unavoidable in human society.

Competition is inseparable from scarcity.

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Scarcity exists when there is not enough of some good to provide consumers with all they would take if it were free. It follows that we must find some way to decide who gets how much of any scarce good. The accepted way in a free society is to allow those who want a particular good—say, a bushel of apples—to bid for it. The bushel of apples will then go to the person who voluntarily sacrifices the greatest quantity of other goods in exchange for the apples. We call such bidding competition, but note that such competition differs fundamentally from another kind of "competition" that could be used to allocate the apples—physical terror: he gets the apples who beats up all others who want the apples.

Capitalism's critics insist that there is a cooperative way to allocate resources. People can meet together and agree who gets what. Early American colonists in Jamestown and Plymouth initially tried to avoid all competition and allocated resources exclusively by cooperative, collective decision. The result was starvation. When each settler realized that his food entitlement was independent of the amount of work he put in, too many settlers chose not to cooperate in the community's productive efforts. In both colonies, the specter of starvation forced the abandonment of these collectivist plans, and output then expanded.[1]

Similarly, the Marxist plan for distribution is a wonderfully cooperative, and detrimental, scheme. If needs are the basis upon which goods are allocated, it will pay each person to produce not goods but "needs." It will pay people to move toward poverty, for only then will one's needs be maximized. Moreover, if others do not readily recognize these "needs," it will pay those in "need" to exert efforts emphasizing the genuineness of their "needs." Such cooperation on this score would produce not only universal poverty—society would be awash in nothing but "needs"—but also hostility among those who do not receive what they believe to be their due. Such an outcome is hardly a happy consequence for a cooperative society.

Cooperation is appropriate, of course, when the coordinated efforts and knowledge of many people are necessary to produce a good—such as Adam Smith's wool coat or Leonard Read's pencil. People who competed for jobs now find themselves cooperating with others to produce a product. This cooperation takes place not only among fellow employees but among firms with their customers, stockholders, creditors, and with all manner of suppliers. Sellers cooperate with buyers so that buyers will become repeat customers. Employers cooperate with workers to improve worker productivity. Customers cooperate with suppliers to ensure reliable service and quality supplies. Cooperation is indeed a hallmark of all economic activity in a competitive market.

Socialists and so-called "communitarians" may believe that their systems are free of competition and marked only by cooperation. Yet resources are scarce in planned economies no less than in capitalist economies. At some level, competition will emerge to allocate these scarce resources. In planned economics, people will compete to occupy positions of power.

These power struggles, though perhaps hidden from sight, are undeniably competitive. With more power concentrated among the decision makers, losers may give up more than mere goods. When Stalin decided how to allocate Crimean grain in the early 1930s, approximately two million kulaks lost their wheat and their lives.

The Good and the Bad

Not all varieties of competition are beneficial, just as not all varieties of cooperation are desirable. Labor unions are made up of cooperating workers. To the extent that unions secure special-interest legislation, the wages of workers cooperating in a union are raised at the expense of consumers and of non-unionized workers. Similarly, businesses often cooperate through trade associations that lobby effectively for import restrictions. Such cooperation yields benefits for the few at the greater expense of the many.

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Popular phrases describing competition were cited at the beginning of this essay. All such phrases are pejorative. And indeed, competition can be bad. If the owners of General Motors spread nails on the roads leading to Ford factories and dealerships, this is a form of noneconomic competition—and a most undesirable form. General Motors benefits not only at the expense of Ford, but also at the expense of consumers because the nails on the road effectively eliminate consumers' option of buying Fords. But notice that identically undesirable consequences occur when General Motors and Ford cooperate with each other to lobby successfully for import restrictions on foreign automobiles. Tariffs hurt consumers no less than do nails on the road. Genuine cutthroat competition occurs whenever firms successfully lobby government for artificial "advantages" such as tariffs or regulations that unnecessarily burden rivals: consumers and foreign-producers are harmed by government pandering to interest groups. Few people, however, refer to tariffs, dumping laws, and costly regulations as examples of cutthroat competition or business cooperation. Instead, such legislation is typically revered as desirable social policy.

The phrases "dog-eat-dog" and "survival of the fittest" are harsh-sounding phrases, and they vastly misrepresent competitive activity within private-property markets. In competitive markets, firms do not attack each other claw and fang. Rather, firms do battle by seeing who can best serve the customer. That is, in competitive markets, firms compete by seeing who can best *cooperate* with consumers. K-Mart and Wal-Mart strive to offer consumers better deals because each firm knows that if it fails to offer good deals, customers will patronize other, more responsive firms. Both firms survive as long as each cooperates with consumers effectively enough to earn profits. To protect firms from the competition of rival firms would be to encourage protected firms to be less cooperative with consumers.

Of course, in any competitive industry only the fittest firms do survive. In the 1930s, groceries were distributed mainly by mom-and-pop stores. Today, supermarkets—each of which carries on average about 50,000 different kinds of products—have replaced the mom-and-pops. Supermarkets did not prey on mom-and-pop stores as cheetahs prey on gazelles. Supermarkets offered consumers a new shopping choice. Consumers voluntarily switched their patronage from mom-and-pops to supermarkets because, as judged by consumers, supermarkets cooperated better with consumers than did the mom-and-pops. No supermarket literally killed mom or pop. Some of these small-store owners retired while others moved into other lines of work. Today, the descendants of the owners of mom-and-pops are surely better off than they would have been had supermarkets never come along.

Conclusion

Competition in the marketplace is competition among cooperators. While the best cooperators in each line of work "win" in the sense of earning greater profits than their rivals, these victors do not literally destroy rivals. Rivals unsuccessful in one line of work move into other lines, where they are more likely to enjoy a comparative advantage. Market discipline, in combination with the information conveyed in the form of market prices, ensures that each of us is cooperating with as many other people as possible, in the most effective manner possible. Far from undermining cooperation, the market enhances cooperation. □

1. *See* Robert C. Ellickson, "Property in Land," *Yale Law Journal*, Vol. 102, April 1993, pp. 1315–1400.

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"From Each According to His Abilities . . ."

by Thomas J. Shelly

As a teacher, I found that the socialist-communist idea of taking "from each according to his abilities," and giving "to each according to his needs" was generally accepted without question by most students. In an effort to explain the fallacy in this theory, I sometimes tried this approach:

When one of the brighter or harder-working students made a grade of 95 on a test, I suggested that I take away 20 points and give them to a student who had made only 55 points on his test. Thus each would contribute according to his abilities and—since both would have a passing mark—each would receive according to his needs. After I juggled the grades of all the other students in this fashion, the result was usually a "common ownership" grade of between 75 and 80—the minimum needed for passing, or for survival. Then I speculated with the students as to the probable results if I actually used the socialistic theory for grading papers.

First, the highly productive students—and they are always a minority in school as well as in life—would soon lose all incentive for producing. Why strive to make a high grade if part of it is taken from you by "authority" and given to someone else?

Second, the less productive students—a majority in school as elsewhere—would, for a time, be relieved of the necessity to study or to produce. This socialist-communist system would continue until the high producers had sunk—or had been driven down—to the level of the low producers. At that point, in order for anyone to survive, the "authority" would have no alternative but to begin a system of compulsory labor and punishments against even the low producers. They, of course, would then complain bitterly, but without understanding.

Finally I returned the discussion to the ideas of freedom and enterprise—the market economy—where each person has freedom of choice and is responsible for his own decisions and welfare.

Gratifyingly enough, most of my students then understood what I meant when I explained that socialism—even in a democracy—would eventually result in a living death for all except the "authorities" and a few of their favorite lackeys. □

The late Mr. Shelly was a high school teacher in Yonkers, New York.

This essay, first published in 1951 as "A Lesson in Socialism," was a popular FEE reprint for many years.

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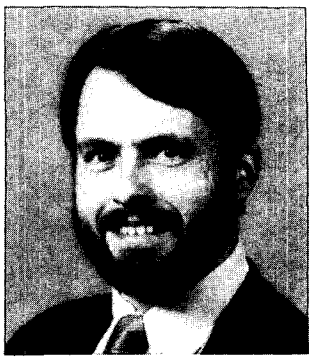

The Morality of Freedom

Freedom. Presumably every reader of *The Freeman* is committed to this principle. But why? What good is it?

After I endorsed a federal budget "train wreck," arguing that closing down the government would help people appreciate the value of freedom, one correspondent chided me: "What has freedom ever done for African-Americans?" The question is important. Consider the problems of poverty and crime. Consider the scourge of slavery and discrimination. Of what relevance is our abstract commitment to liberty?

Supporters of a free society sometimes seem to drift off into cant, denouncing the "state" and upholding "individuals." They use the word "liberty" like a talisman, which they expect to mesmerize everyone. Critics of collectivism have long focused on economic analysis—inefficiency, lack of cost-effectiveness, and waste have all become bywords. And when the votes have been counted, they have lost.

This is not to say that practical arguments are irrelevant. Whether a policy works, and at what cost, are critical questions. The efficiency case for freedom is overwhelming.

But it is not the most important, or most convincing, argument. Advocates of statism have long understood this. They propose an increase in the minimum wage to help struggling families, not to eliminate imperfections in labor-management negotiations. They propose corporate average fuel economy (CAFE) standards for automakers to save energy and the environment, not to make cars more cost-efficient. They propose safety regulations to save lives, not to ensure a proper balancing of costs and benefits in manufacturing. They propose the welfare state to assist the poor and elderly, not to standardize the provision of social services. In short, they emphasize the *moral* case for intervention.

Against which practical arguments usually fail. I want to ensure that poor families can feed themselves and you want to protect corporate profits. I want to preserve the environment for future generations and you want to let automakers make more money selling gas-guzzlers. I want to protect children's lives and you want to ensure lower-cost production. I want to save the helpless and disadvantaged and you want to cut the deficit. There should be no surprise that advocates of a free society have so often lost.

But we have moral arguments too, stronger moral arguments since political freedom is, ultimately, based on moral principle. Rather than dividing society between ruled and rulers, we believe that all people are truly equal. That human beings really are endowed by their creator with certain inalienable rights. That they have the right to live their lives without outside interference, so long as they respect the rights of others. Liberty goes to the core of the human person, the right to live life with dignity,

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strive for success, build a family and community, worship God, and earn a living. Without freedom none of these is possible.

Of course, all of this sounds terribly abstract. But the practical implications, too, are profound, and can still be explained in moral terms. Consider the question posed by my correspondent: what has freedom done for African-Americans? Let's turn it around: what has the lack of freedom done for African-Americans?

One need only visit an inner-city to see the horrendous consequences of statism. Where to start? Everyone has a right to form a family and household. But look at the impact of welfare, which has discouraged family formation and encouraged family break-up. Everyone should be able to choose a safe and effective school for one's children. The government's educational monopoly, however, has created schools which cannot even protect children from violence, let alone teach them to read. Everyone is entitled to walk the streets without being robbed, assaulted, or murdered. Yet drug prohibition, by creating an artificial criminal market, has fueled an epidemic of crime in urban America. Everyone should be able to find a job and get on the economic ladder of opportunity. Alas, government employment restrictions, like the minimum wage, occupational licensing, and the Davis-Bacon Act, make it hard for African-Americans to get work. And on and on.

The vision of a free society, then, is a profoundly moral one. It is a place where poor children are educated. It is a place in which poor women are not trapped in poverty. It is a place in which people do not drop to the floor when gunfights erupt outside their houses. It is a place in which those with political power do not constitute a privileged class. It is a place in which the phrase "equal opportunity" has real meaning.

We need to communicate that vision in both Washington policy debates and the larger political discourse of our nation. Advocates of a free society have been learning, and we are winning some battles because of it. Among these:

- The minimum wage. Once advocates of freedom began to emphasize that the minimum wage destroys jobs rather than, say, contributes to inflation, they gained more listeners. Even reporters now cite the negative impact of the minimum on minority unemployment.
- CAFE. Congress routinely ignored attacks on federal fuel standards when critics focused on the cost to manufacturers. But opponents of CAFE have had greater success after pointing out that CAFE, by forcing people into smaller cars, kills. The point is, when cars crash, the smaller one, along with its occupants, loses.
- Food and Drug Administration. After the tragedy with thalidomide, Congress tightened FDA control over pharmaceuticals and no plea about the costs to U.S. manufacturers could move it. But as deregulators have shown how the FDA is actually killing people by delaying production of new drugs and devices and interfering with transmission of medical information, the FDA is promising to reform.
- Education. Public education has long been one of the strongest bulwarks of the interventionist state, impervious to overwhelming evidence of failure. But the rhetoric of choice, especially for the inner city, has begun to divide liberals concerned about the interests of teachers' unions from those concerned about the future of disadvantaged kids.
- Welfare. Criticism of AFDC, Food Stamps, and the like on budget grounds long had only a limited effect. But the argument that the real crisis is human—a catastrophe in which young boys are growing up without fathers, becoming criminals, and being jailed or gunned down, and young girls are permanently wedding welfare and losing their sense of dignity, worth, and opportunity—is now accepted even by many on the Left.

Part of the lesson from these cases is to appeal to the emotion as well as the intellect. But it's more than that. As much as policymakers like to criticize "ideologues," they base many of their actions on principle, on what they think is right and wrong.

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So we need to convince our fellow citizens that not all policy outcomes are equal in principle. Rather, there are moral implications of taxing and spending, regulating and intervening. To deny parents a choice on the education of their children, to lock disadvantaged kids in schools where they won't learn and aren't safe, is *wrong, morally wrong*. To buttress union wages through the minimum wage while throwing black teens out of work is *wrong, morally wrong*. To let government bureaucrats deny dying patients access to lifesaving products is *wrong, morally wrong*. In these cases freedom means opportunity, career, and life itself. Freedom matters.

It is unfortunately easy for liberty's defenders to eschew moral arguments. The temptation is particularly strong for those within the Beltway, since Washington discourages appeals to principle on behalf of freedom. But the strongest case for the free society is philosophical. In the end, we aren't likely to win until we are able to convince our fellow citizens that liberty is morally right. □

FEE Classic Reprint

Legalized Immorality

by Clarence Manion

It must be remembered that 96 percent of the peace, order, and welfare existing in human society is always produced by the conscientious practice of person-to-person justice and charity. When any part of this important domain of personal virtue is transferred to government, that part is automatically released from the restraints of morality and put into the area of conscienceless coercion. The field of personal responsibility is thus reduced at the same time and to the same extent that the boundaries of irresponsibility are enlarged.

Government cannot manage these fields of human welfare with the justice, economy, and effectiveness that are possible when these same fields are the direct responsibility of morally sensitive human beings. This loss of justice, economy, and effectiveness is increased in the proportion that such governmental management is centralized. . . .

Government cannot make men good; neither can it make them prosperous and happy. The evils in society are directly traceable to the vices of individual human beings. At its best government may simply attack the secondary manifestations of these vices. Their primary manifestations are found in the pride, covetousness, lust, envy, sloth, and plain incompetency of individual people. When government goes far beyond its limited role and deploys its forces along

The late Clarence Manion was Dean of the College of Law, Notre Dame University.

"Legalized Immorality," an excerpt from his 1950 book, The Key to Peace, *appeared in* Essays on Liberty, *Volume I (FEE, 1952).*

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a broad, complicated front, under a unified command, it invariably propagates the very evils that it is designed to reduce.

In the sweet name of "human welfare" such a government begins to do things that would be gravely offensive if done by individual citizens. The government is urged to follow this course by people who consciously or subconsciously seek an impersonal outlet for the "primaries" of human weakness. An outlet in other words which will enable them to escape the moral responsibility that would be involved in their personal commission of these sins. As a convenience to this popular attitude we are assured that "government should do for the people what the people are unable to do for themselves." This is an extremely dangerous definition of the purpose of government. It is radically different from the purpose stated in the Declaration of Independence; nevertheless it is now widely accepted as correct.

Here is one example of centralized governmental operation: Paul wants some of Peter's property. For moral as well as legal reasons, Paul is unable personally to accomplish this desire. Paul therefore persuades the government to tax Peter in order to provide funds with which the government pays Paul a "subsidy." Paul now has what he wanted. His conscience is clear and he has proceeded "according to law." Who could ask for more?—why, Paul, of course, and at the very next opportunity. There is nothing to stop him now *except the eventual exhaustion of Peter's resources.*

The fact that there are millions of Pauls and Peters involved in such transactions does not change their essential and common characteristic. The Pauls have simply engaged the government "to do for them (the people) that which they are unable to do for themselves." Had the Pauls done this individually and directly without the help of the government, each of them would have been subject to fine and imprisonment.

Furthermore, 95 percent of the Pauls would have refused to do this job because the moral conscience of each Paul would have hurt him if he did. However, where government does it for them, there is no prosecution and no pain in anybody's conscience. This encourages the unfortunate impression that by using the ballot instead of a blackjack we may take whatever we please to take from our neighbor's store of rights and immunities. □

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THE FREEMAN
IDEAS ON LIBERTY

Nullifying the Rule of Law

by Mark S. Pulliam

What do nineteenth-century anarchist Lysander Spooner,[1] the O. J. legal defense team, some elements of the militia movement,[2] the Los Angeles juries that failed to convict the Menendez brothers of murdering their parents and that acquitted the brutal assailants of Reginald Denny, and the activists who promote the idea of "fully informed juries"[3] have in common?

They all symbolize the notion that juries can and should refuse to heed the instructions given them by the trial judge, and that jurors should instead follow their own consciences and "nullify" those instructions by doing what they personally feel is just.

Jury instructions are the applicable legal rules communicated to the jury by the trial judge. In virtually every jurisdiction, jurors take an oath at the beginning of the case that they will consider only the evidence presented and the instructions of the court. The "instructions" are, therefore, laws that society has duly enacted through either the legislative process or the common law judicial process. In either event, the laws derive legitimacy from our democratic political traditions.

As citizens, we may not agree with all the laws on the books, but in a system of representative government we are bound to follow them. It is inherent in the concept of the State that there will not be unanimity in all matters, but that the views of the majority will prevail. This "coercion" or "oppression" of the dissenting minority has long perturbed anarchist philosophers such as the aforementioned Spooner, who objected to the "social compact" rationale for the state as well as the institution of the jury.[4] Jury-power activists sometimes cite Spooner as a proponent of "jury nullification," but he is best known for his more fundamental objection to constitutional government.

On what basis do advocates of jury nullification attempt to justify the lawlessness that ignoring the court's instructions entails? Advocates advance two principal explanations, neither of which is persuasive: (1) civil disobedience, or the moral right or obligation to resist enforcement of an unjust law,[5] and (2) populist opposition to tyrannical actions by an unresponsive government.[6] Let's consider these explanations.

Civil Disobedience

Civil disobedience is a misnomer in the context of a seated juror refusing to follow the law. Civil disobedience, properly understood, is resistance to unjust government action as a last resort—when disobedience is the only alternative to becoming a participant in an objectionable act. This will never be the case with a seated juror. A potential juror who objected to service could refuse to report to court or serve on a jury. A person with a moral objection to enforcing a particular law (say, punishing a defendant charged with private drug use or blockading abortion clinics) could disclose that objec-

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March 1996

Looking Back

When Leonard Read, a Chamber of Commerce executive from Los Angeles, set out to launch The Foundation for Economic Education in March of 1946, the world was facing tremendous problems of readjustment and recovery from the upheavals of World War II. The country was suffering from persistent, ugly confrontation between labor and management, from vacillating governmental policies on price controls, and incredible food shortages resulting from the price controls over meat, sugar, and cereal. For most of the year the Office of Price Administration (OPA) was controlling more than four-fifths of industrial production through its 68,000 inspectors and agents. And thousands of businessmen were facing criminal charges in the courts and press for having violated OPA orders.

Socialism was reigning supreme in all parts of the world. Surely, its nationalistic version, fascism, had been crushed by allied forces, but its two blood relatives, Soviet communism and democratic socialism, were alive and well. In the United States, capitalism was commonly blamed for depression and unemployment and condemned for intolerable economic and social inequality. The 68,000 federal inspectors were the vanguard of a new social and economic order.

The Foundation for Economic Education (FEE) was meant to be an intellectual fort of resistance and, hopefully, a rallying point for this country to re-establish the enduring principles on which it was founded. The FEE plan was a great design, the restoration of an order of freedom and harmony. Leonard Read surrounded himself with half a dozen scholars and journalists, men and women of excellence, seekers of knowledge, and students of liberty. Most of them spent a few years with FEE and then moved on to other important pursuits in industry and education. Some were to become famous educators, captains of industry, and founders of enterprise. One of the most eminent scholars was Professor F. A. Harper, who subsequently was to found a think tank of his own, The Institute for Humane Studies in Menlo Park, California, now in Fairfax, Virginia. Another was George C. Roche III, who was to lead Hillsdale College to new heights of leadership and educational service. A few scholars stayed on and dedicated their productive lives to the noble tasks of the Foundation. Paul Poirot was to edit *The Freeman* for thirty-one years; W. M. Curtiss was to direct the business affairs of FEE for 27 years, Robert G. Anderson for 19 years. Bettina Bien Greaves was to reach out to school children of all ages, and the Reverend Edmund A. Opitz was to explore the moral and spiritual foundations of liberty. There was unassuming

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greatness in their dedication and will, their faith and moral strength.

The Foundation was guided and assisted by two great men who will be remembered and cited for centuries to come: the dean of Austrian economics, Ludwig von Mises, and the illustrious journalist, Henry Hazlitt. Mises served as advisor until his death in 1973, at the age of 92, and Hazlitt served as one of the seven founders who met on March 7, 1946, for the inaugural meeting. He remained on the Board of Trustees until his passing in 1993, at the age of 98.

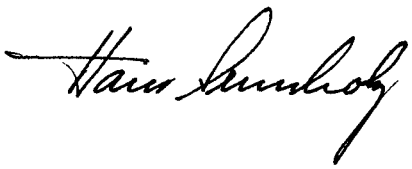
Throughout the decades, FEE was ably supported and greatly encouraged by men of finance, commerce, industry, and the professions. Some of them joined the Board of Trustees, meeting regularly and supervising not only the business affairs of the organization but also its educational work. But most supporters, some 10,000 to 20,000 strong, consist of two kinds of people: those who subscribe to *The Freeman* and purchase its books and services and those who make voluntary donations.

The buyers who subscribe to FEE's celebrated monthly journal, *The Freeman,* are probably the staunchest friends of FEE. They identify with the journal because it makes the spiritual, moral, and rational case for liberty. Standing far above the fray of politics, it emphasizes ideas rather than party programs and political agendas, prescriptions for public policy, and government edicts. It never argues *ad hominem* or denigrates other peoples' motives with wit, sarcasm, and ridicule.

The buyers may also avail themselves of more than one hundred books and booklets published by FEE and another three hundred titles stocked and shipped by FEE to all corners of the world. Or they may attend a seminar, a round-table discussion, or a summer school. They all support FEE by being FEE customers.

Throughout the decades the Foundation has reached and touched millions of individuals with its freedom message. When there were no other voices defending the free society, *The Freeman* spoke clearly and convincingly. Its ideas and arguments influenced and guided countless millions around the world. For five decades, FEE has been the Rock of Gibraltar of sound economics and moral principle, of devotion to individual freedom and the private property order, in a turbulent and dangerous world. No one can know the intellectual effect and end result of its labors, but we do believe that conditions have improved immeasurably during the life of FEE and that FEE has contributed its part to the improvement. World communism has disintegrated under the weight of its miscreation and inhumanity, and socialism in all its colors and designs is in full retreat.

No matter how we may want to compare the political, social, and economic situation in 1946 with that of today, half a century later, we believe that economic knowledge has advanced visibly and that conditions are on the mend. Surely, the voice of political power and bureaucratic control continues to be heard in the halls of Congress, in the press, and in the U.N., but it no longer dominates the American scene. The American people of the 1990s seem to be more knowledgeable in social matters and wiser in the affairs of the political world than their forebears in the 1940s. They may have learned what had to be unlearned.



Hans F. Sennholz

You cannot correct all the evils of the world, nor relieve all the poverty in the world.

You cannot comfort all in distress, nor support all the underprivileged.

But you can stand by FEE which brings the light of freedom to the world.

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tion during voir dire and be excused from serving in the case.

But, after a juror has reported for service, been screened through voir dire, been seated and sworn to follow the law according to the instructions of the court, there is no room for "civil disobedience." A juror reneging on his oath is an outlaw, a scofflaw. A renegade juror cheats the parties to the case out of their right to have the matter decided according to the law, on the basis of which the evidence and arguments have been presented.

Despite proponents' fondness of quoting Henry David Thoreau on civil disobedience,[7] a lawless juror is no more heroic than a rogue policeman violating the law or a politician accepting a bribe. If a juror (or any other member of the political community) feels that a particular law is unjust—and in a society as large and diverse as ours, we can assume that someone, somewhere, feels that every law on the books is unjust—the remedy is to petition the legislature for reform, not to infiltrate the jury and then ignore the law.

Populist Opposition

The other frequently cited justification for jury nullification—the need to rein in abusive government power—is even more specious. An honest anarchist such as Lysander Spooner would refuse to serve on a jury because he wouldn't believe in the concept of mandatory jury service or even governmental proceedings to enforce the law. Let's not forget that a trial, whether civil or criminal, *is* government action. Enforcing democratically enacted laws is one of the basic purposes of government. When a juror considers defying his oath and deciding a case based on his personal feelings rather than the court's instructions, the alternative is not between liberty and coercion, but between coercion informed by the rule of law and coercion at the whim of 12 jurors.

And what is a jury acting outside of the law but a 12-person mob, like modern-day vigilantes? Although the jury-power activists point to historical events where juries refused to enforce the Fugitive Slave Act,[8] there is no assurance that a jury operating outside the law would only acquit in a criminal case; it could just as easily "nullify" the instructions by convicting a person who was technically innocent. Moreover, there are no counterparts to the Fugitive Slave Law in a civil case. Furthermore, nullifying the law strips the individuals who comprise society of *their* right to have the laws enforced. Nothing could be more tyrannical or despotic than the arbitrary decision of a jury that has rejected the law.

It disturbs me to see libertarians and conservatives—whom I generally regard as allies—embrace the jury nullification cause. The rule of law is essential to the preservation of liberty. Friedrich Hayek, perhaps this century's pre-eminent theorist of classical liberalism—the political philosophy of freedom—believed that the defining characteristic of a free society is the rule of law, meaning legal rules stated in advance, uniformly applied, without excessive discretion.[9] In Hayek's words: "[W]hen we obey laws, in the sense of general abstract rules laid down irrespective of their application to us, we are not subject to another man's will and are therefore free."[10] Thus, it is the universal, non-selective nature of law that allows us to be free.[11] In Hayek's view, it is precisely because judges and juries cannot pick and choose what laws to enforce in a particular case "that it can be said that laws and not men rule."[12] Jury-activist pamphleteers in front of the courthouse would do well to heed Hayek's admonition that "few beliefs have been more destructive of the respect for the rules of law and of morals than the idea that a rule is binding only if the beneficial effect of observing it in the particular instance can be recognized."[13]

Yet that is exactly what advocates of jury nullification espouse—following the law only if they agree with it in a particular case. I am not unsympathetic to concerns about unjust laws and government overreaching. The solution is grassroots political activism and reforms such as fewer federal mandates

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and expanded use of the initiative and recall devices, not shortsighted demagoguery in the form of jury nullification. Jurors ignoring the law accomplish nothing but anarchy in a microcosm—nullifying the rule of law. □

1. Lysander Spooner, *An Essay on the Trial By Jury* (1852).
2. "Militias Are Joining Jury-Power Activists to Fight Government," *Wall Street Journal* (May 25, 1995), p. A1 (hereinafter "Militias").
3. *Ibid.*
4. Lysander Spooner, *No Treason: The Constitution of No Authority* (1870).
5. Michael Pierone, "Requiring Citizens to Do Evil," *The Freeman* (July 1993), p. 261.
6. "Militias," p. A8; N. Stephan Kinsella, "Legislation and Law in a Free Society," *The Freeman* (September 1995), pp. 561, 563.
7. Pierone, note 5, p. 262.
8. *Ibid.*
9. Friedrich A. Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944), pp. 72–79.
10. Friedrich A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960), p. 153.
11. *Ibid.*, pp. 153–54.
12. *Ibid.*, p. 153.
13. *Ibid.*, p. 159.

Why It Matters

by Roger M. Clites

Last November people in Quebec voted on whether to secede from Canada. Before the vote took place there was speculation in both Canada and the United States about how much harm such a pullout would do to Canada, to the United States, and to Quebec itself. With only one exception every opinion that I saw was that secession would harm all of them. In a short article two graduate students did make the case that Quebec would benefit from breaking away.

Their analysis leads us toward why it matters. It matters because of various types of governmental meddling in economic activity. Contrary to what we are told by political leaders and others, governments do not engage in or promote economic activity. Governments only place restrictions and barriers.

Were it not for government intervention, trade would be free throughout North America, indeed throughout the world. Movement of people, capital, and goods would take place more efficiently were government not constantly meddling in commerce. Competition would equalize production costs. Comparative advantage would determine what would be produced in a given location. Efficiency would be greatly enhanced and levels of living would rise dramatically.

But can a nation the size of Quebec "go it alone"? Of course it can. When I visited Luxembourg and even tiny Lichtenstein I observed some of the highest levels of living anywhere in the world, certainly higher than those in large nations in Africa, Asia, and Latin America. People who have traveled to Andorra and little Monaco have told me that people in both of those minute nations are quite prosperous. In fact, small countries are often more hospitable to economic activity because their governments are small. Also they have to recognize the importance of international trade and the need to be competitive.

The problem is not that economic activity would be curtailed. The problem is that government does not want to give up any of its power to control. That is the only reason that it matters. □

Professor Clites teaches at Tusculum College in Tennessee.

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Warning: OSHA Can Be Hazardous to Your Health

by Raymond J. Keating

How could anyone find fault with a government agency whose stated mission is "to assure so far as possible every working man and woman in the nation safe and healthful working conditions and to preserve our human resources"?[1]

As is typical with government agencies brandishing impossible missions, the Occupational Safety and Health Administration (OSHA) has become a burdensome regulatory body, seemingly more concerned with pushing paper and imposing fines rather than in establishing safer working environments. Indeed, since OSHA's first month in existence in 1970, when it instituted 4,400 job safety and health rules, the agency has played the role of adversary to American business.[2]

In reality, the private sector possesses every incentive to maintain a safe and healthy working environment for employees. Indeed, beyond a commonly held concern for one's employees, the financial incentives are substantial. That is, after factoring into the equation lost production and productivity costs, health-care costs, insurance costs, possible lawsuits, and so on, it is clear that safety pays.

Unsafe workplaces have always been and remain the exception rather than the rule. Of course, OSHA acts under the opposite assumption, thereby imposing significant and unnecessary costs on business and the economy. Such costs translate into less entrepreneurship, slower economic growth, and fewer jobs.

There is substantial evidence that OSHA has strayed far from its much-touted educational, advisory, and cooperative relationship with business. Indeed, OSHA's concern for real safety is lost in a bureaucratic and regulatory haze of citation quotas, tax collection, and remarkably inane regulations. For example:

- OSHA imposes an incredible paperwork burden on U.S. business. In 1994, seven of the top ten most frequent OSHA citations were related to paperwork. OSHA has perfected the government "make-work" scheme—generate a paper blizzard of regulations and then fine businesses for not complying.
- In 1976, 95 percent of OSHA citations were classified as "nonserious," while in recent years 70 percent of citations have been classified as "serious."[3] It remains difficult to fathom that "serious" violations have grown so much, especially considering the general decline in workplace deaths and injuries. More likely, a considerable, ongoing redefinition of OSHA violations has been undertaken. Such a development reflects the arbitrary and subjective nature of OSHA citations.
- With the 1990 budget deal, OSHA

Mr. Keating is chief economist for the Small Business Survival Foundation.

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stepped up its role as a revenue collector for the federal government. OSHA's maximum allowable penalties were increased sevenfold, and $900 million in additional revenues were expected over five years.

OSHA's maximum penalties range from $7,000 per violation—for "serious" and "other than serious" classifications—to $70,000 for the "willful and repeat" classification. These are dollar levels that can put many small- and medium-sized businesses out of business. OSHA can levy an "egregious penalty," where fines can be arbitrarily increased by counting each employee possibly exposed as a separate violation—another example of the arbitrary nature of OSHA citations.

The current administration's so-called plan to "reinvent" OSHA noted a few examples of ridiculous OSHA regulations:

- Plastic gas cans can be used on manufacturing work sites, but not on construction sites, even if they have been approved by local fire marshals.
- OSHA only allows for radiation signs with purple letters on a yellow background, while the Department of Transportation calls for black on yellow.
- OSHA requires that work-site first-aid kits be approved by a physician.

Unfortunately, in the midst of all the talk about government "reinvention," OSHA has been busily preparing additional regulations. The federal budget offers program statistics for each agency. "Standards promulgated" (i.e., regulations imposed) are estimated at 12 annually for 1995 and 1996 by OSHA—a kind of regulation quota. OSHA has committed substantial resources to three particular areas in recent years—indoor air quality, ergonomics, and mandatory workplace safety commissions. Scientific evidence pertaining to indoor air quality and ergonomics is weak, if not non-existent, while mandatory worker safety commissions amount to nothing more than a sop to labor unions. If implemented, such regulations will cost tens of billions of dollars annually—translating into fewer resources for investment, employee compensation, and job creation.

Another glaring problem with government regulation and inspections of any industry or workplace is that most, if not all, regulators lack expertise in particular industries. If such individuals were experts, they would hold productive, private sector jobs. They are government bureaucrats. Bureaucrats know paperwork. Hence, the most cited violations by OSHA are paperwork related. The phenomenon was noted by Mr. Vitas M. Plioplys—safety services manager at R.R. Donnelly & Sons Company, the world's largest commercial printer—before the U.S. House of Representatives Subcommittee on Workforce Protections of the Committee on Economic and Educational Opportunities:

> Any time an OSHA inspector comes into one of our facilities, it is probably the first time they have ever seen a large commercial printing press. In our plants where the presses are 100 feet long and three stories high, the OSHA inspector doesn't know where to start. In every case the inspector will invariably find a guard off, or some other minor, readily apparent violation, but will pass by process equipment which, if it failed, could blow up our facility. Because they are not experts in the industry they cannot know the critical issues we deal with on a daily basis. . . . Our informal conferences end up being training sessions on safety in the printing industry to the local OSHA offices. They do not know our industry, yet try to cite us as if they do.

Even after noting the many OSHA horror stories, regulations, paperwork burdens, and costs, some still claim that OSHA's benefits outweigh its costs. In a May 16, 1995, speech President Clinton linked OSHA with reduced workplace deaths: "The Occupational Safety and Health Administration has been at work in this cause since it was created with bipartisan support in 1970. Since that time, workplace deaths have been cut in half."

Of course, workplace deaths were on the decline for decades before OSHA was created. Fewer workplace deaths reflect many

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changes in our economy—greater automation, shift in employment from manufacturing to the service sector, leaps in technology, enhanced knowledge, et al. There exists no clear and substantial evidence that OSHA has played any significant role in preventing workplace injuries or death.

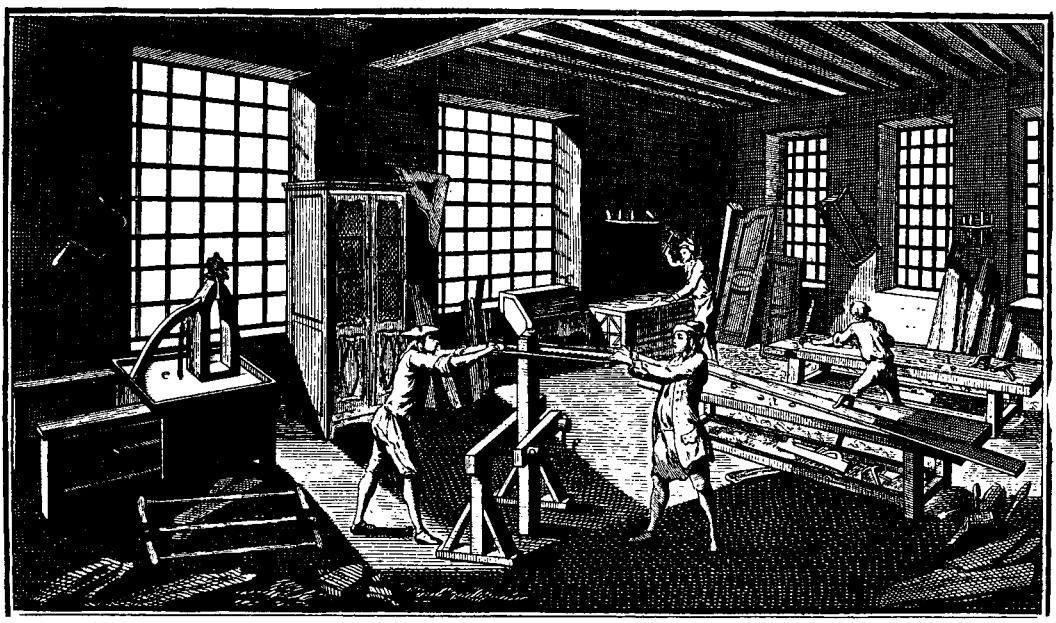
The incentives for the private sector to maintain safe working conditions are clear. As already mentioned, many factors make safety and good health a priority for employers. Indeed, as many business owners and operators will tell you, maintaining a safe working environment and complying with OSHA regulations are quite often separate endeavors.

OSHA deregulation efforts are underway in Congress, and should be applauded. However, OSHA eventually should be scrapped altogether—"disinvented" if you will.

Private industry—with technological advancements, expanded knowledge, and proper incentives—has steadily improved the working conditions of employees. Regulatory efforts, have been largely incidental to such developments. Indeed, as noted above, regulations often simply create additional costs with few benefits.

Workplace safety can be and is ensured by individuals—employers, employees, and insurance companies—and if necessary, the courts. If the U.S. economy is to compete and succeed in the years ahead, government's heavy hand of regulation must be lifted. □

1. The Occupational Safety and Health Act as quoted in *Congressional Quarterly's Federal Regulatory Directory*, Seventh Edition, Congressional Quarterly Inc., Washington, D.C., 1994, p. 394.
2. *Ibid.*, p. 394.
3. Information provided by U.S. Representative Cass Ballenger's office.



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Private Enterprise Regained

by Henry Hazlitt

Governor Bradford's own history of the Plymouth Bay Colony over which he presided is a story that deserves to be far better known—particularly in an age that has acquired a mania for socialism and communism, regards them as peculiarly "progressive" and entirely new, and is sure that they represent "the wave of the future."

Most of us have forgotten that when the Pilgrim Fathers landed on the shores of Massachusetts they established a communist system. Out of their common product and storehouse they set up a system of rationing, though it came to "but a quarter of a pound of bread a day to each person." Even when harvest came, "it arose to but a little." A vicious circle seemed to set in. The people complained that they were too weak from want of food to tend the crops as they should. Deeply religious though they were, they took to stealing from each other. "So as it well appeared," writes Governor Bradford, "that famine must still insue the next year allso, if not some way prevented."

So the colonists, he continues, "began to thinke how they might raise as much corne as they could, and obtaine a beter crope than they had done, that they might not still thus languish in miserie. At length [in 1623] after much debate of things, the Gov. (with the advise of the cheefest amongest them) gave way that they should set corne every man for his owne perticuler, and in that regard trust to them selves. . . . And so assigned to every family a parcell of land. . . .

A Great Success

"This had very good success; for it made all hands very industrious, so as much more corne was planted than other waise would have bene by any means the Gov. or any other could use, and saved him a great deall of trouble, and gave farr better contente.

"The women now wente willingly into the feild, and tooke their litle-ons with them to set corne, which before would aledg weakness, and inabilitie; whom to have compelled would have bene thought great tiranie and oppression.

"The experience that was had in this commone course and condition, tried sundrie years, and that amongst godly and sober men, may well evince the vanitie of that conceite of Platos and other ancients, applauded by some of later times;—that the taking away of propertie, and bringing in communitie into a comone wealth, would make them happy and florishing; as if they were wiser than God. For this comunitie (so farr as it was) was found to breed much confusion and discontent, and retard much imployment that would have been to their benefite and comforte.

"For the yong-men that were most able and fitte for labour and service did repine that they should spend their time and streingth to worke for other mens wives and

Henry Hazlitt (1894-1993), author of Economics in One Lesson, *was a Founding Trustee of FEE.*

This essay was written in 1949 and subsequently appeared in the first volume of Essays on Liberty, *published by FEE in 1952.*

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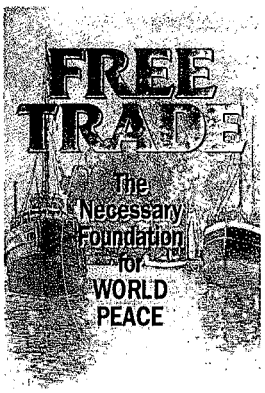
children, with out any recompense. The strong, or man of parts, had no more in devission of victails and cloaths, than he that was weake and not able to doe a quarter the other could; this was thought injuestice. . . .

"And for men's wives to be commanded to doe servise for other men, as dressing their meate, washing their cloaths, etc., they deemed it a kind of slaverie, neither could many husbands well brooke it. . . .

"By this time harvest was come, and instead of famine, now God gave them plentie, and the face of things was changed, to the rejoysing of the harts of many, for which they blessed God. And the effect of their particuler [private] planting was well seene, for all had, one way and other, pretty well to bring the year aboute, and some of the abler sorte and more industrious had to spare, and sell to others, so as any generall wante or famine hath not been amongest them since to this day."

The moral is too obvious to need elaboration. □



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—Leonard P. Liggio
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Prosperity Without Pollution

by John Semmens

I recently had the opportunity to participate in a World Future Society "debate" on whether we could reduce pollution without also reducing our economic well-being. Mainstream thinking asserts that we must sacrifice at least some of our prosperity in order to protect the environment. One panelist in the World Future Society debate insisted that we must drastically reduce population, live in houses made of mud and straw (apparently oblivious to the fate of one of the "Three Little Pigs" who tried this), and ride bicycles to work.

Fortunately, this mainstream thinking is wrong. We can have both a growing economy and an improving environment. In fact, it seems likely that a growing economy may well provide the very means needed to improve the environment. "Sacrifice" may not only be unnecessary, it may even be counterproductive. On balance, there is good reason to be optimistic about the "fate of the planet."

If we are to overcome the institutionalized pessimism of the mainstream environmentalist creed, we must first dispel its erroneous premises.

Erroneous premise #1:
Natural is better than artificial.

Natural is the survival of the fittest. The natural condition is for the weak, the lame, the sick to be mercilessly exterminated by predators and climate. Dying of old age is not natural. In a state of nature, most deaths are violent, painful, or agonizing. The most common modes of demise are being killed and eaten or starving to death. The natural world is not the "playland" depicted by Disney cartoons. It is the constant struggle for survival perceived by Charles Darwin. Some 99 percent of extinctions that have occurred on this planet occurred before human beings existed. The environment does not preserve species or habitat. Left alone, the environment is ruled by an undiluted principle of "might-makes-right."

Civilization is artificial. This creation of the human species has modified the "might-makes-right" rule of nature. The artificial institution of law helps to channel human predatory instincts to more humane purposes. One does not have to watch too many nature documentaries before it becomes clear that theft, assault, rape, and murder are common behaviors in the animal kingdom. Nature has no law respecting property. The strong dispossess the weak. Abandonment, exile, and death are the fate of those who cannot compete in the Darwinian struggle.

Technology is artificial. The inquiring minds of the human species have discovered or created the means to enable the survival of the weak, the lame, and the sick. Medicine has lowered the mortality rates from disease, accident, and violence. Improved production methods have made starvation a relatively rare cause of death in the Western world. Devices like eyeglasses and wheelchairs have helped to offset disabilities that

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would imperil survival in a state of nature. As a result, we have the opportunity to lead lives that are less violent, painful, and precarious than would be natural.

"Environmentalism" itself is an artifact of civilization. The abundance generated by our technologically advanced civilization allows people to contemplate more than just survival. Creatures living in a natural state of subsistence cannot afford the luxury of refraining from unbridled exploitation of the environment. For example, without abundance, wilderness is a barrier for humans to overcome or avoid. With abundance, wilderness can be perceived as worthy of being preserved.

Erroneous premise #2:
Resources are finite.

The very concept of what constitutes a resource is a creation of the human mind. No "thing" is a resource by nature's decree. All "resources" are "man-made." That is, it is only the application of human valuation to objects that make them resources. If humans place no value on an object it is not going to be called a resource. Its supply in a state of nature will exceed the demand for it. An example of a "thing" that has undergone a transition from a non-resource to a highly valued resource is crude oil. At one time, in the not too distant past, oil was seen mainly as a blight on agriculture. The few places where oil bubbled to the surface posed hazards to livestock and crops. However, during the nineteenth century, human ingenuity discovered a means of converting this substance to useful purposes.

Even such a highly prized substance as crude oil is not valued for itself. Rather, it is valued for the service it can perform in meeting human wants. If some other substance can be found or made that offers better or cheaper service, it will supplant crude oil, just as crude oil supplanted whale oil in the nineteenth century. That some other substance will eventually be found or made seems highly probable. The high prices of scarce resources stimulate the search for better or cheaper alternatives for meeting the same human wants. So, in the final analysis, it is not the "finiteness" of any substance that is critical. The critical factor is the scope of the human imagination. This scope seems to be getting broader. The accelerating pace of technological advancement should give us confidence that, barring the implementation of oppressive government meddling, we are not likely to run short of intellectual resources in the foreseeable future.

Erroneous premise #3:
Population growth is a problem.

One participant in the World Future Society debate showed a graph of world population growth that he described as "scary." Frankly, I would find a graph showing a comparable plunge in world population far more scary. The growth in population that has characterized the modern era is due primarily to lower mortality rates. Fewer people are dying at young ages. More are living longer lives. For most, the prospect of living a longer life would not be considered a fearful event. Fear is more aptly associated with an untimely early demise.

The fear of population growth seems to be driven by the notion that eventually there will be too many people for the planet to support. Such a fear is grossly exaggerated. Most of those familiar with the "carrying capacity" concept agree that given the current level of technology the sustainable human population figure is in the 30 to 40 billion range. Inasmuch as the present population is under 6 billion and no credible forecast projects a figure even close to the 30 billion mark for the next few centuries, the planet seems far from overloaded. Besides, as the mortality rates have fallen in the industrialized portions of the globe, so too have the birth rates. Once parents are more assured that their children will survive to adulthood, the need to produce enough offspring to compensate for a high death rate is alleviated. Obviously, human reproduction is influenced by factors more complicated than pure sexual instinct.

It is not population, per se, that could pose a problem for humanity, but the polit-

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ical and social institutions that affect human behavior. In this regard, the paternalistic welfare state is a serious problem. Government programs that entitle people to consume without their having to produce turns them into drones and parasites. Energy conservation is an important survival trait. Individuals that can obtain more goods for less cost will tend to thrive. The welfare state seduces individuals into behavior patterns that exploit this survival trait, but at the cost of imposing extra burdens on the productive individuals. The more generous the welfare benefits, the larger the number of people that will be drawn into this parasitic mode of existence. At some point, the burden of the parasitic portion of the population may overwhelm the output capacity of the productive portion. Thus, it is the ratio of parasitic to productive individuals that is crucial, not the total size of the population.

Absent parasite-inducing paternalism, a larger population could offer significant advantages. More people means more minds. Having more minds working on human problems improves the chances of finding solutions. There is more opportunity for specialization and the depth of expertise that specialization brings. The dramatic acceleration in science and technology in our high population era is evidence for the potential advantages of a growing population.

Erroneous premise #4:
The environment is getting worse.

On balance, the environment is getting better. Consider the case of transportation. The internal combustion engine is frequently singled out as a prime culprit in the pollution of the environment. Yet, the internal combustion engine vehicle is clearly less polluting than the animal-powered transportation it supplanted. A horse produces 45 pounds of manure per day. This emission, in an urban context, typically generated a horrible smell and mess. Further, it provided a breeding ground for insects, vermin, and the diseases associated with filth. In contrast, the emissions of internal combustion engine powered vehicles pose a much smaller threat to human health.

Neither should the efficiency aspect be ignored. A gasoline powered vehicle can travel farther in one hour than a horse can in a day. Therefore, on an emissions per mile of travel basis, automobiles are less polluting than horses.

Automotive technology has not stood still since supplanting animal-powered travel. Autos last longer, travel faster, and use less fuel per mile now than they did when first invented. In terms of pollution emitted during the operation of autos, noxious emissions per vehicle mile are down 70 percent to 95 percent since 1970. In most cities, the ambient air is cleaner now than it was 20 years ago.

Erroneous premise #5:
More government control is the answer.

The awesome power wielded by government has persuaded many that it should be the instrument of choice for dealing with environmental problems. Plausible as the resort to government's awesome powers may at first appear, experience would seem to indicate that this would be a poor choice.

The first source of difficulty for those wont to rely upon government solutions is that government is inherently irresponsible. Because government has the might to compel compliance with its dictates, it cuts itself off from essential feedback on the success or failure of its efforts. Government coercion rides roughshod over differing values. Its "one-size-fits-all" standard ignores the differing needs of diverse individuals. The balancing of values that typically occurs in the marketplace is suppressed. In its place, costly, and frequently ineffective measures are imposed.

The fact that government is funded through taxation increases the odds that government programs will fail to achieve their announced objectives. Taxes sever the link between costs and benefits. This creates a "problem of the commons." The "problem of the commons" is that everyone has an incentive to demand more than can be

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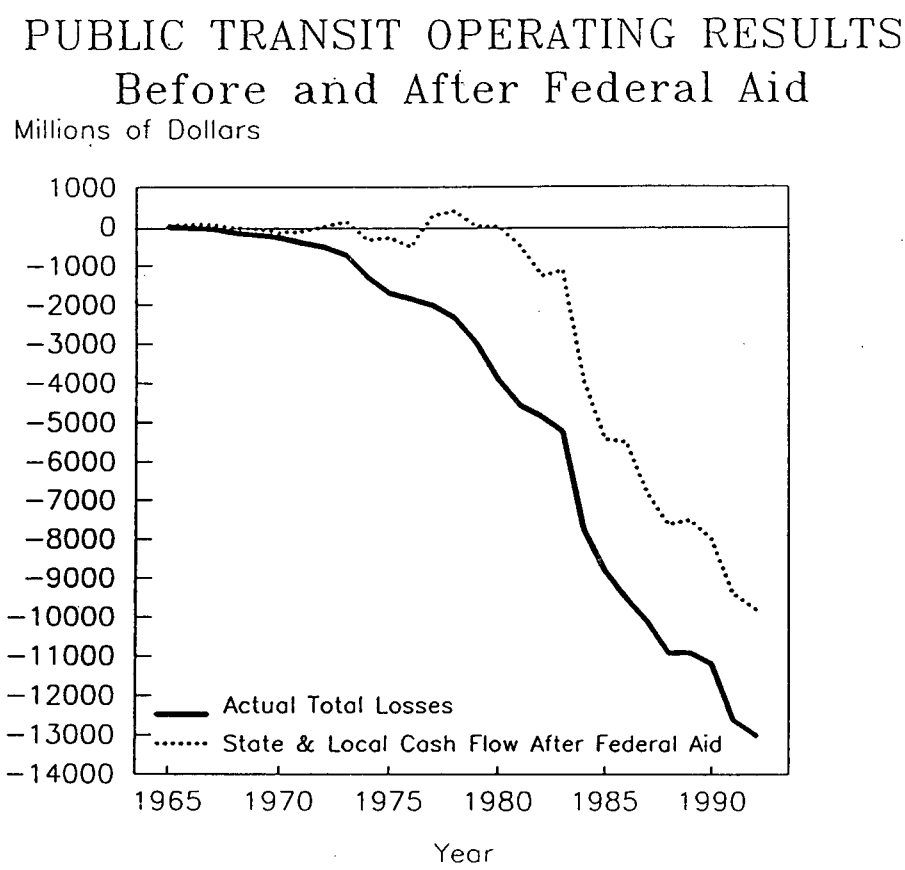

Source: Transit Fact Book (American Public Transit Association)

provided by the resources available. At the same time, no one has an incentive to provide more resources. Those who receive the benefits do not have to pay the costs. Those who pay the costs do not receive the benefits. This is the formula for failure that contributed to the demise of socialistic societies like the Soviet Union, East Germany, and Poland.

One of the clearest demonstrations of the "problem of the commons" in the American economy is in our urban transportation systems. Almost all of the urban transportation systems in America are operated under conditions that could most accurately be characterized as socialistic. The roads and rails are owned and operated by government. Most of the funding comes from taxes. Decisions regarding investment, services, and prices are all made through a political rather than a market process.

Since they don't have to pay in proportion to the cost to obtain access to roads, drivers demand more than can be provided. Highway agencies go through recurring financial crises in a futile effort to sate this demand. Meanwhile, a massive waste of precious time is underway during every "rush hour." Some would have us address this waste by building heavily subsidized rail transit systems. However, even with two-thirds of the cost of transit trips being borne by taxpayers, this mode has continued to lose riders. Continuing to pour more money into these transit systems is the kind of irresponsible misallocation of resources that only government is prone to inflict on society. (See the chart of "Public Transit Operating Results" for an illustration of the inauspicious results of government subsidies to transit.)

A second source of difficulty for those who look to government for solutions is that government planning is inherently inept.

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Reality is too complex to fit into any plan that government can devise. Government lacks adequate information on the subjective values of individuals, on the world's continuously changing circumstances, and on what the future might bring. Further, government lacks sufficient incentives to avoid mistakes. The burdens of its errors fall on others. Its failures serve as a rationale for further meddling.

If granting more power to government is not the best way to achieve prosperity and reduce pollution, what is? Well, since the attainment of both prosperity and a cleaner environment is likely to hinge upon the application of human creativity to perceived problems, an obvious option would appear to be to attempt to encourage more creativity. Creativity is likely to be encouraged if individuals are (1) free to use their minds and (2) have sufficient incentive to do so.

This argues for reducing the scope of government intervention and control over society and increasing the scope for voluntary human interactions. Government spending and taxing should be reduced. The lessening burden on private transactions that would result would permit more investment in innovations and technological advancement. The lure of greater "net-of-taxes" returns on investment would provide added incentive for innovations and technological advances.

The socialistic enterprises of government, like highways and transit systems, should be privatized. Selling such operations to private-sector owners would enable the powerful forces of market incentives to more efficiently direct resources to meet consumers' most urgent needs. More rational pricing of services will reduce the deadweight losses epitomized by traffic jams. The fixed capacities of urban roads could be more effectively used and avert the need to pave over more of the environment.

Environmentalists urging a government-mandated return to a more natural mode of living are misperceiving the past and the true implications of "natural." There is no "Garden of Eden" to which humanity can return. Human creativity is the key to a more livable future in both economic and environmental terms. To foster creativity we must have freedom to think and act. □

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THE FREEMAN
IDEAS ON LIBERTY

James Madison—Checks and Balances to Limit Government Power

by Jim Powell

James Madison didn't originate the idea of checks and balances for limiting government power, but he helped push it farther than anyone else before or since. Previous political thinkers, citing British experience, had talked about checks and balances with a monarch in the mix, but Madison helped apply the principle to a republic. Contrary to such respected thinkers as Baron de Montesquieu, Madison insisted checks and balances could help protect liberty in a large republic.

If one must endure a central government, it seems hard to improve on the highly sophisticated checks and balances provided in the U.S. Constitution, which reflects a good deal of Madison's handiwork. Stalwart republican Thomas Jefferson embraced it. He told Madison, his best friend: "I like much the general idea of framing a government which should go on of itself peaceably, without needing continual recurrence to the state legislatures. I like the organization of the government into Legislative, Judiciary and Executive. I like the power given the Legislature to levy taxes; and for that reason solely approve of the greater house being chosen by the people directly . . . preserving inviolate the fundamental principle that the people are not to be taxed but by representatives chosen immediately by themselves. I am captivated by the compromise of the opposite claims of the great and little states, of the latter to equal, and the former to proportional influence. . . . I like the negative given to the Executive with a third of either house. . . ."

Madison didn't have a grand vision of liberty like Jefferson, but he acquired practical insights about how to protect liberty. Madison, recalled William Pierce, a Georgia delegate to the Constitutional Convention, "blends together the profound politician, with the Scholar. In the management of every great question he evidently took the lead in the Convention, and tho' he cannot be called an Orator, he is a most agreable [sic] eloquent, and convincing Speaker. From a spirit of industry and application, which he possesses in a most imminent degree, he always comes forward the best informed Man of any point in debate . . . a Gentleman of great modesty,—with a remarkably sweet temper."

Like his compatriots from Virginia, Madison's record was stained by slavery, an

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inheritance he could never escape. He tried several business ventures aimed at generating adequate income without slaves, but none worked. Ultimately, he didn't even liberate his slaves upon his death, as George Washington had done.

Madison, a shy man, was perhaps the least imposing Founder. He stood less than five feet, six inches tall. He had a sharp nose and receding hairline. He suffered a variety of chronic ailments including fevers, gastrointestinal problems, and seizures. "I am too dull and infirm now," he wrote at 21, "to look out for any extraordinary things in this world for I think my sensations for many months past have intimated to me not to expect a long or healthy life." The most distracting ailment, Madison recalled much later, was "a constitutional liability to sudden attacks, somewhat resembling Epilepsy, and suspending the intellectual functions. They continued thro' life, with prolonged intervals."

But he blossomed when, at 43, he met the 26-year-old, black-haired, blue-eyed widow Dolley Payne Todd. One of her friends reported: "At Night he Dreams of you & Starts in his Sleep a Calling on you to relieve his Flame for he Burns to such an excess that he will be shortly consumed. . . ." They were married September 15, 1794, and for the next four decades were the "first couple" of republican politics, keepers of the Jeffersonian flame.

James Madison was born March 16, 1751, at his stepgrandfather's plantation on the Rappahannock River, King George County, Virginia. His ancestors had come to America not as persecuted people seeking a sanctuary but as entrepreneurs hoping to profit. He was the eldest child of Nelly Conway, a tobacco merchant's daughter. His father, James Madison Sr., was a tobacco farmer in Orange County.

Biographer Ralph Ketcham describes Madison as "a sandy-haired, bright-eyed, rather mischievous youth." He had private tutors who taught Latin, arithmetic, algebra, geometry, history, and literature. Although most Virginians considering college would have chosen William and Mary, it had

Dolley Madison

a reputation as a "drinking school," and in 1769, Madison left home for the College of New Jersey, which later became Princeton University. Its library was well stocked, and included books by Scottish Enlightenment authors like Adam Smith and Adam Ferguson as well as influential works on natural rights by John Locke and John Trenchard and Thomas Gordon, co-authors of the radical *Cato's Letters*. Madison graduated in September 1771.

Madison was drawn to current affairs. He devoured newspapers. He read more books about liberty, such as Josiah Tucker's *Tracts*, Philip Furneaux's *Essay on Toleration*, Joseph Priestley's *First Principles on Government*, and Thomas Paine's pamphlet *Common Sense*.

An Early Dedication to Liberty

On April 25, 1776, 25-year-old Madison was elected a legislator to help draft a state constitution for Virginia. Proposals came

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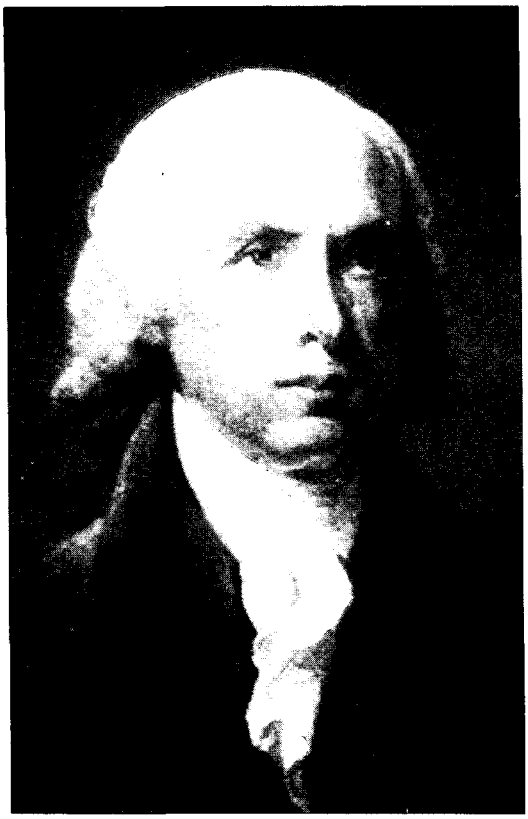

James Madison

from Thomas Jefferson and Richard Henry Lee, who were in Philadelphia preparing to declare American Independence. Madison's first contribution to liberty: a measure which affirmed that "all men are equally entitled to enjoy the free exercise of religion according to the dictates of conscience, unpunished and unrestrained by the magistrate, unless the preservation of equal liberty and the existence of the State are manifestly endangered."

Madison worked with Thomas Jefferson who shared his passion for religious liberty. The two men began meeting frequently after Jefferson was elected governor of Virginia. They both loved books, ideas, and liberty, and they remained best friends for a half-century.

In 1784, Madison persuaded the Virginia legislature to enact Jefferson's "Bill for Establishing Religious Freedom." He defeated Patrick Henry's proposal that the state subsidize the Anglican church. Madison declared government money corrupts. Christianity, he noted, "flourished, not only without the support of human laws, but in spite of every opposition to them. . . ."

During these debates on religious freedom, Madison got a key idea for protecting individual rights: ". . . freedom arises from that multiplicity of sects which pervades America, and which is the best and only security for religious liberty in any society."

Meanwhile, in December 1779, Madison had been appointed to the Continental Congress which, meeting in Philadelphia, performed legislative, executive, and judicial functions during the Revolutionary War. The government was broke and financed the war effort with vast issues of paper money known as "continentals," which triggered ruinous runaway inflation. Madison became the most articulate advocate of an alliance with France, and he supported Benjamin Franklin who was lobbying King Louis XVI for help. Madison participated in negotiations with Spain, which controlled Louisiana, aimed at assuring vital American access to the Mississippi River.

Madison served in Congress under the Articles of Confederation, ratified March 1, 1781. It was a voluntary association of states. Congress depended on voluntary contributions, not taxes. If people in a particular state didn't approve what Congress was doing, they kept their money, and that was that. Although states squabbled with each other, they were bit players in world politics, unlikely to become entangled with foreign wars. Amending the Articles required unanimous consent—the general rules people lived by couldn't be upset easily. Voluntary cooperation worked well enough that the states defeated Britain, the world's mightiest naval power, and they negotiated tremendous territorial concessions.

Madison, however, was frustrated at what he considered the irresponsible behavior of states. He objected to their trade wars and continued paper money inflation—a result of Revolutionary War costs. Devious New Englanders tried to arrange a monopoly on codfish sales to Spain in exchange for

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giving up American rights on the Mississippi River, which would have devastated people in the Kentucky territory. Madison believed things would be better if Congress could function as a centralized government. Just 12 days after ratification of the Articles, he conceived the dubious doctrine of *implied power*: if a government agency were assigned a particular responsibility, it could assume power it considered necessary to fulfill that responsibility even if the power wasn't enumerated in a constitution.

A "Fatal Omission"?

Madison, incredibly, insisted that to be legitimate, a government must coerce people. "A sanction is essential to the idea of law, as coercion is to that of Government," he wrote in his paper *Vices of the Political System of the United States* (April 1787). The Confederation, he continued, "being destitute of both, wants the great vital principles of a Political Constitution. Under the form of such a constitution, it is in fact nothing more than a treaty of amity of commerce and alliance, between independent and Sovereign States." Madison called the lack of coercion "a fatal omission" in the Confederation.

On February 21, 1787, Madison and Alexander Hamilton, Washington's former assistant who believed passionately in a powerful central government, persuaded Congress to name delegates who would *revise* the Articles of Confederation.

Madison got George Washington to attend the National Convention, where he served as presiding officer. This meant serious business would be done, convincing distinguished citizens that they, too, should attend. Benjamin Franklin would be present as well, lending his international prestige to the gathering.

Madison arrived in Philadelphia May 3, 1787. He was to be among 55 delegates from 12 states (Rhode Island refused to send delegates). The delegates included attorneys, merchants, physicians, and plantation owners. Thirty-nine delegates had served in the Continental Congress, and they were inclined to seek more power than permitted by the Articles of Confederation.

A quorum of seven states was present by May 25th. Proceedings began on the first floor of the Pennsylvania State House. During the next four months, delegates met six days a week from late morning till early evening. Details of what went on were kept secret at the time. "I chose a seat in front of the presiding member, with the other members on my right & left," Madison recalled. "In this favorable position for hearing all that passed . . . I was not absent a single day, nor more than a cassual fraction of an hour in any day, so that I could not have lost a single speech, unless a very short one." Madison was a major influence, rising to speak 161 times through the Convention.

The Virginia Plan

Defying explicit instructions to revise the Articles of Confederation, Madison launched the debates by helping to draft the "Virginia Plan," which called for a brand-new constitution. It described a two-branch national legislature. The House would be elected directly by the people, the Senate by the House. Seats would be proportionate to population. There would be a national executive and a national judiciary, both chosen by the legislature. Madison insisted the proposed national government must be the supreme power with a "negative" over state legislatures. Large states supported this plan.

Small states rallied to the "New Jersey Plan," which aimed to revise the Articles of Confederation with a single legislative body where each state had equal representation. The "New Jersey Plan" accepted the principle that all acts of Congress "shall be the supreme law of the respective States."

The Convention stalemated on the issue of state representation, and it was referred to a committee which proposed the "Great Compromise": each state would have equal representation in the Senate, the House would be apportioned by population, and money bills would originate in the House.

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As for the executive, Madison hadn't worked out his ideas before the Convention. The Committee on Detail recommended an executive who would be called "President," be elected by the legislature, serve a single seven-year term and function as commander-in-chief of armed forces. Once delegates decided that each state would have an equal number of Senators, Madison became convinced that the executive should be elected independently of the legislature. He helped draft the final proposal to have the president selected by electors whom the people choose—the "electoral college."

Madison's collaborator, Alexander Hamilton, was the most outspoken critic of democracy at the Convention. After praising Britain's hereditary monarchy, he declared: "Let one branch of the Legislature hold their places for life or at least during good behavior. Let the Executive also be for life."

Slavery was an explosive issue. If the Constitution had prohibited it, Southern states would have surely bolted the Convention. Madison successfully pressed for a clause permitting the end of the slave trade in 20 years (1808), and he kept direct support for slavery out of the Constitution. The Constitution provided that the census count slaves ("other persons") as three-fifths of a person, thereby reducing Southern representation in the House.

The final draft of the Constitution, about 5,000 words, was engrossed and signed by 38 delegates on September 17, 1787. Sixteen delegates had quit the Convention or refused to sign it at the end. It was sent to Congress which, in turn, referred it to states for ratification by conventions of elected delegates. The Constitution would be adopted upon ratification in nine states.

By eliminating state tariffs, the Constitution created a large free trade area, eventually the world's largest, which made possible America's phenomenal peacetime prosperity starting in the early nineteenth century. Entrepreneurs could travel freely without the myriad tolls, tariffs, and other obstacles that plagued business enterprise in Europe.

Checks and Balances

The Constitution attempted to limit the power of central government through intricate checks and balances. A key principle was separation of powers: those who make laws, enforce laws, and interpret laws should be substantially independent and capable of limiting each other's power. The two houses of Congress provide a check on each other. The President can veto legislation, but he can be overruled by a two-thirds majority in both houses. The judiciary can strike down laws considered unconstitutional. Proposed amendments become part of the Constitution when approved by two-thirds of Congress and by legislatures in three-quarters of the states.

Yet the Constitution did establish unprecedented government power in America. The Constitution authorized federal taxes which never existed before. It gave the federal government power to overrule elected state and local officials who were closer to the people. Control over larger territory increased the temptation for U.S. presidents to become entangled in foreign wars, which had the consequence of further expanding federal power. There's some irony here, since many people supported the Constitution because of dissatisfaction with high inflation, high taxes, and other economic consequences of the Revolutionary War.

Madison accepted Alexander Hamilton's invitation to help promote ratification in New York State. Between October 1787 and March 1788, Madison wrote 29 essays which, together with 56 more essays by Hamilton and lawyer John Jay, appeared in New York newspapers. The essays became known as *The Federalist Papers*. All were signed "Publius" after the Roman lawmaker Publius Valerius Publicola who helped defend the Roman republic. In July 1788, the essays were published as a two-volume book. Madison seems to have recognized that by setting up a central government, the Constitution conflicted with ideals of liberty. Not until August 1788 did he finally tell Jefferson about his collaboration: "Col. Carrington tells me he has sent you

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the first volume of the federalist, and adds the 2nd. by this conveyance. I believe I never have yet mentioned to you that publication."

Because the Constitution proposed to expand government power, there was substantial opposition, spearheaded by the so-called "Antifederalists." They included New York governor George Clinton, Revolutionary War organizer Samuel Adams, and Virginians George Mason and Patrick Henry. Respected pro-Constitution historians Samuel Eliot Morison, Henry Steele Commager, and William E. Leuchtenburg admitted "There is little doubt that the Antifederalists would have won a Gallup poll."

The Antifederalists presented a wide range of often conflicting points against the Constitution. Most important: the lack of a Bill of Rights. Madison considered bills of rights to be mere "parchment barriers" which an oppressive majority could easily ignore. He was convinced that liberty would be best protected in a large republic with many competing interests, where it would be difficult for a single one to oppress the others.

Bill of Rights

Jefferson made clear he opposed the Constitution without a bill of rights. For example, on December 20, 1787, he told Madison he objected to "the omission of a bill of rights providing clearly and without the aid of sophisms for freedom of religion, freedom of the press, protection against standing armies, restriction against monopolies, the eternal and unremitting force of the habeas corpus laws, and trials by jury. . . ." Jefferson added: a Bill of Rights is "what the people are entitled to against every government on earth, general or particular, and what no just government should refuse, or rest on inference." Madison resisted. "I have never thought the omission a material defect," he wrote Jefferson, "nor been anxious to supply it even by subsequent amendment. . . ."

Madison, however, came to realize the Constitution wouldn't gain acceptance without a bill of rights. The Constitution was ratified in Delaware (December 7, 1787), Pennsylvania (December 12th), New Jersey (December 18th), Georgia (January 2, 1788), Connecticut (January 9th), Massachusetts (February 7th), Maryland (April 28th), South Carolina (May 23rd), New Hampshire (June 21st), Virginia (June 25th), and New York (July 26th), but the Antifederalists still had some aces. They threatened to campaign for a second constitutional convention, which Madison didn't want.

Madison, elected a Congressman, became the key advocate for a bill of rights. On June 8, 1789, he rose on the House floor and presented his version. He declared: ". . . those who have been friendly to the adoption of this constitution, may have the opportunity of proving to those who were opposed to it, that they were as sincerely devoted to liberty and a republican government. . . ." Madison led the debates and parliamentary maneuvering which involved conferences between House and Senate. The House voted for the proposed Bill of Rights on September 24, 1789, and the Senate followed the next day. State legislatures ratified the Bill of Rights on December 15, 1791.

Madison conceived a limited role for this new government. "The powers delegated by the proposed Constitution to the federal government," he explained, "are few and defined. Those . . . will be exercised principally on external aspects, as war, peace, negotiation and foreign commerce. . . ."

Madison was shocked at how fast the Federalists, led by President Washington's Treasury Secretary Alexander Hamilton, expanded central government power beyond the limits he helped set up. As early as November 1789, Madison expressed opposition to Hamilton's recommendation that the self-interest of wealthy investors should be linked to the central government by issuing bonds—running up a big national debt.

Hamilton convinced President Washington to approve the establishment of a government bank as a convenience for the

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government, and Madison opposed it because the Constitution didn't say anything about a bank. Indeed, the Constitutional Convention had specifically rejected a proposal that the federal government charter corporations such as a bank. Madison rejected the doctrine of implied powers which he had previously advocated during his campaign for central government. Implied powers, he declared, struck "at the very essence of the Government as composed of limited and enumerated powers."

Countering the Federalists

Madison became nearly as radical as Jefferson. Both men praised Thomas Paine's *The Rights of Man* (1791), a clarion call for liberty which alarmed the Federalists. Hamilton unleashed nasty attacks against Jefferson in Philadelphia newspapers, and Madison together with James Monroe wrote counterattacks. Madison denounced Hamilton's view that the President should have considerable discretionary power to conduct foreign policy, even if it undermines Congressional power to declare war. In 1793, Madison spoke out against the military build-up sought by the Federalists. Three years later, Federalists wanted to suppress American societies sympathetic to the French Revolution, but Madison insisted they were innocent until proven guilty of some crime. Federalists warned that aliens posed grave dangers, while Madison introduced a bill which made it easier for aliens to become American citizens. Madison resisted Federalist demands for higher taxes. He denounced the Alien and Sedition Acts (1798), which empowered the government to silence, even deport critics. His was a crucial, courageous voice during the Federalist assault on liberty.

Jefferson won the 1800 presidential election, turning the Federalists out, and Madison became Secretary of State for two terms. Then Madison won the presidency twice himself. These years were marked by frustration as he groped for a way to discourage the warring British and French from seizing American merchant ships. He pursued an embargo which backfired, devastating American port cities. He stumbled into the War of 1812, and the British torched Washington, D.C.—retaliation against the United States, which had torched Toronto. Demands of wartime finance spurred Madison to ask for higher taxes and a second government bank, since the term of Hamilton's bank had expired. Madison was vindicated on one point, though. He relied on volunteers, not conscripts, and it was American privateers who ravaged the British coastline, forcing the British government to negotiate peace. London merchants couldn't even get maritime insurance between Britain and Ireland.

Despite his inconsistencies, Madison outlived all the other Founders and continued expressing the ideals of republican liberty. As Jefferson wrote in his most poignant letter, February 17, 1826: "The friendship which has subsisted between us, now half a century, and the harmony of our political principles and pursuits, have been sources of constant happiness to me. . . . It has also been a great solace to me, to believe that you are engaged in vindicating to posterity the course we have pursued for preserving to them, in all their purity, the blessings of self-government. . . . To myself you have been a pillar of support through life. Take care of me when dead, and be assured that I shall leave with you my last affections."

Madison's time came a decade later when, in early 1836, he began suffering from chronic fevers, fatigue, and shortness of breath. On June 27th, Madison wrote his final words, about his friendship with Jefferson. During breakfast the next day, he suddenly slumped over and died. He was buried in the family plot a half-mile south of his house.

For all their flaws, constitutional checks and balances endure as the most effective means ever devised for limiting government—a tribute to the insight, industry, and devotion of James Madison. □

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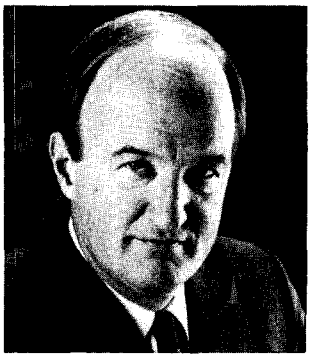


What Do You Make of This Graph?

"It was felt that if the policy prescriptions of the New Economics were applied, business cycles as they had been known would be a thing of the past."

—Hyman P. Minsky, 1968[1]

In the 1960s, the heyday of Keynesian economics, economists spoke optimistically of an end to the dreaded business cycle. Then came the stagflationary jolt of the 1970s, the credit crunch and banking crisis of the 1980s, and Japan's depression of the 1990s. In short, the business cycle seems alive and kicking.

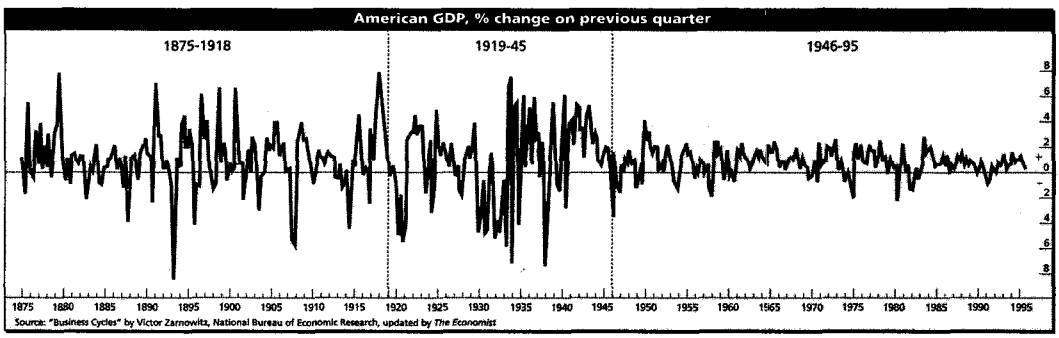
Now, however, comes a graph recently published by the National Bureau of Economic Research (NBER) showing that the cycle has been tamed since World War II, resurrecting the "business cycle is dead" thesis. The graph is printed below.

According to these GDP statistics, the American economy has become more stable since World War II. Expansions are longer and slumps are milder. Moreover, the trend appears to be improving, and some economists are once again predicting that recessions will disappear altogther.

Big Government: Boom or Bane?

So what do we make of this graph? I asked an MIT economist, who immediately responded, "Keynesianism works!" Then I asked a Chicago professor, who exclaimed, "Monetarism works!"

Can we surmise from this graph that big government, as reflected in activist fiscal and monetary policy, has permanently re-



Source: Victor Zarnowitz, Business Cycles (NBER and University of Chicago Press, 1995), reprinted in The Economist, Oct. 28, 1995.

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versed the prewar ups and downs of America's GDP?

Granted, there have been significant increases in the size and scope of government policy since the 1940s—the introduction of so-called automatic stabilizers (unemployment compensation, federal deposit insurance, Social Security), the increase in total government spending to over 40 percent of GDP, and a resolve by federal authorities to inflate in the face of any sign of economic downturn or crisis. All these policy changes have created an environment that errs on the side of inflation, rather than deflation. And an inflation-biased economy is likely to give you more boom than bust over the long term.

Of course, there could be other explanations for a milder and less frequent postwar business cycle:

—no world war since 1945;

—expanding free trade and globalization, which tends to ameliorate economic ups and downs;

—improved methods of inventory control, thus minimizing fluctuations in industrial output; and

—shifts in the economy away from volatile agricultural markets toward more stable manufacturing and service industries.[2]

The Cost of Artificial Stability: Less Growth

But there is no free lunch. Interestingly, greater stability in the business cycle has also coincided with less growth in the postwar U.S. economy. There has clearly been a secular decline in the economic growth rate, particularly the late 1960s when the size of government began to explode upward. According to real growth rates provided by Milton Friedman, the U.S. economy grew between 3 and 4 percent a year in inflation-adjusted terms between 1869 and 1969, except during the 1929–39 depression. However, since 1969, the annual real growth rate fell to only 2.4 percent, and lately, in the 1990s, the real growth rate has declined even further.

What is the cause of this malaise? A ubiquitous and unproductive state has clearly left a huge and growing burden on society. Government at all levels is strangling business and individual initiative through excessive taxation and regulation. Not surprisingly, most federal regulatory agencies (EPA, OHSA, FDA, etc.) burgeoned in the late 1960s and early 1970s—the same time the growth rate began falling. It was also the time that the government broke the last link to sound money (the gold standard).

In sum, we must not fall into the trap of supporting big government because of its allure of economic stability and a safety net. For stability may simply be a camouflage for economic lethargy and a declining standard of living. As Ben Franklin remarked, "Those who would give up essential liberty to purchase a little temporary safety, deserve neither liberty nor safety."

Leviathan Is Not Benign

Before we join the "business cycle is dead" school, let us not forget that Leviathan is not benign. More than likely, it will blunder again in the face of a world crisis—whether it be a financial panic, a natural disaster, or a war. As Adam Smith once remarked, "There is much ruin in a nation." According to the Austrian theory of the business cycle, as developed by Ludwig von Mises and Friedrich Hayek, monetary inflation does not simply raise prices, but also de-stablizes the economy. In a world of fiat money inflation and fractional reserve banking, business cycles are inevitable.

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Just because we have avoided another Great Depression over the past fifty years does not guarantee that we will avoid it in the next fifty years. The U.S. economy may be Depression-resistant, but it is not Depression-proof. □

1. Quoted in Martin Bronfenbrenner, ed., *Is the Business Cycle Obsolete?* (New York: Wiley, 1969), p. vi.

2. Some economists, especially Berkeley economist Christina Romer, emphasize this point and question whether there has been much improvement in postwar business cycles. See "The Postwar Business Cycle Reconsidered," *Journal of Political Economy*, Feb. 1989. However, even accepting Romer's revised GDP figures, a huge difference exists between prewar and postwar business cycles.

THE LUSTRE OF GOLD

Why is the gold standard viewed with disfavor by many? What is it that causes politicians and economists, such as John Maynard Keynes, to disparage and decry a monetary system which has been man's standard for thousands of years?

The gold standard is a monetary system in which gold is proper money and all paper moneys are merely substitutes payable in gold. It is as old as man's civilization. Throughout the ages it emerged again and again because man needed a dependable medium of exchange and gold was found to be such a medium.

The gold standard that builds on freedom does not fail of its own accord. It springs eternally from freedom but succumbs to force and violence. Its implacable enemy is government in search of more revenue.

The seventeen essays in this collection examine the rejection of gold, the history of the gold standard and private coinage in the United States, and the prospects for monetary reform. Contributors include Hans F. Sennholz, Mark Skousen, Henry Hazlitt, Elgin Groseclose, Robert G. Anderson, and Lawrence W. Reed.

150 pages + index **$14.95 paperback**

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BOOKS

Albert Speer: His Battle With Truth
by Gitta Sereny
Alfred A. Knopf • 1995 • 757 pages • $35.00

Reviewed by Bettina Bien Greaves

Ever since the appearance in 1944 of F. A. Hayek's masterpiece, *The Road to Serfdom*, it has been generally accepted that it is always "the worst" who get to the top in an interventionist/socialist society. But so do some of the best and the brightest. We know about the thugs and sadists who surrounded Adolf Hitler. But architect Albert Speer was also close to Hitler. Yet he has gained the reputation of being different somehow—intelligent, better than the others, and not directly involved in the Nazi cabal.

Speer was among the top National Socialists put on trial at Nuremberg. There he incurred the wrath of his co-defendants by blaming Hitler and admitting personal guilt for having contributed to his evil regime. This sincerity on Speer's part may have saved him from the hangman's noose, for when the penalties were announced, he was not condemned to death, but "only" to twenty years in Spandau prison.

In his two books (*Inside the Third Reich* and *Spandau*), both based on notes written in prison and smuggled out, he portrays himself basically as "unpolitical" and generally unaware of the Nazi atrocities. But now to set history straight, we have Gitta Sereny's account.

Sereny, Austrian-born, educated in France and England, and married to an American, has lived for years in London and is a British journalist.[1] *Into That Darkness*, her book about Franz Stangl, Nazi Commandant of the Treblinka death camp, attracted Speer's attention when it was published. He wrote Sereny in 1977, and after some correspondence and months of lengthy phone calls, they collaborated on a profile of him for the London *Sunday Times Magazine*. They spent almost three weeks in conversation working on the profile and in the course of this decided to work together on a book.

Under Sereny's relentless questioning, Speer explored the past, trying to discover the truth which he had unconsciously kept hidden even from himself. Sereny gained respect for his sincerity in his personal "battle with truth." Four years into their relationship, in September 1981, Speer died.

Sereny decided to complete the book alone and proved herself a skillful sleuth. She interviewed every friend and associate of Speer's who agreed to see her. In time Sereny found out a great deal about Speer, his life, family, friends, emotions, ideas, and the Nazi regime. This prodigiously researched book is a remarkable *tour de force*—it is biography, history, psychoanalysis, and detective story all combined.

Speer was bright, ambitious, hard-working, and energetic, but by his own account not a particularly brilliant architect. Yet, he was an exceptional person—capable, disciplined, thoughtful, conscientious, resourceful, and talented, as evidenced by his account of how he survived twenty years of confinement at Spandau. But he was also aloof, self-centered, proud, and incapable of close friendship.

Speer's early success began when, after completing in record time a couple of assignments for the National Socialist Party, he came to Hitler's attention. Hitler, a frustrated architect himself, felt drawn to this attractive young architect and Speer soon became one of Hitler's inner circle. Speer was seduced in large part by the opportunities Hitler gave him to fulfill his architectural ambitions—to design grandiose structures, spectacular parade grounds,

[1] Gitta Sereny's father died when she was just two years old. She and her older brother were raised by their mother, Margit Herzfeld Sereny, in chaotic, inflationary Vienna of the 1930s. In 1938 their mother remarried and became Mrs. Ludwig von Mises. As a student and friend of Professor and Mrs. Mises, I came to know Gitta personally.

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elaborate government offices, and even the entire city of Berlin with a massive triumphal arch and an ostentatious domed hall.

In the summer of 1941, however, Speer turned to war work and erected factories all over Europe for war production and air raid shelters. He also directed the repair of bomb-damaged transport facilities in the conquered East. Then in February 1942, Speer was named Hitler's Minister of Armaments and Munitions Production. Speer's efficiency in planning and organizing production, which had been demonstrated in his construction projects, made him invaluable to the war effort. He became No. 2 in Germany in terms of power and authority. Thus Speer, one of the best and brightest, joined the "worst" at the top of the Nazi hierarchy. As Minister of Armaments he had to use great ingenuity to acquire workers and keep armament production going during the war. Millions of forced laborers were brought from the east, from concentration camps, and from German-occupied territories to work long hours, often under dreadful conditions, in the plants he willingly controlled. His use of forced labor was the basis for the principal charge against him at Nuremberg.

In spite of his powerful positions and his close association with Hitler, Speer claimed at Nuremberg that he had always remained ignorant of most of the Nazi crimes. After *Kristallnacht* (November 9, 1938) when Jewish synagogues, shops, and homes were burned, he admitted only to having been disturbed by the disorder of broken windows and smoldering buildings; he claimed no knowledge of what such maltreatment of the Jews foretold. He admitted that he should have known but, teflon-coated to the end, he succeeded in convincing himself and others that he had known little about the Nazi brutalities.

Sereny was determined to discover the true extent of his knowledge about the maltreatment of forced laborers and about the persecution and extermination of the Jews and other minorities. She became convinced that he was concealing the truth even from himself. For weeks, with his too pat answers to all such questions, well-honed and practiced over years, he succeeded. Only at the very end did she ferret out a confession from him which, she believed, if stated at Nuremberg would have condemned him to death. □

Mrs. Greaves is FEE's resident scholar.

Noah's Choice: The Future of Endangered Species
by Charles C. Mann and Mark L. Plummer
Alfred A. Knopf • 1995 • 336 pages • $24.00

Reviewed by Doug Bandow

For some people, nature is sacred. To them, little is more important than preserving biodiversity—the great expanse of animal species. For instance, in the view of Paul and Anne Ehrlich, extinctions must be stopped because of their "religious" conviction "that our fellow passengers on Spaceship Earth . . . *have a right to exist.*"

A cynic might say that if animals have this right, let them assert it. But they don't have to, since the federal government currently does so for them through the Endangered Species Act (ESA). The result has been costly: economic growth foreclosed, draconian mitigation procedures imposed, and private property effectively seized. Of greatest concern may be the devastating impact on people's liberty. For example, development of large stretches of property around Austin, Texas, ground to a halt after the Fish and Wildlife Service listed the golden-cheeked warbler as "threatened." When a rancher asked if he could cut a couple of posts to fix his fence, one agency official responded: "We can't generalize. We have to do it on a case-by-case basis. You'll have to contact us."

Into the emotional issue of endangered species delve Charles Mann and Mark Plummer, science journalist and economist, respectively. The result is an entertaining book that mixes policy analysis with snap-

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shots of the actual impact of government policies on communities across America.

Estimates of the number of discovered species range as high as 1.8 million, "but one cannot be sure," explain Mann and Plummer. The number of undiscovered species is almost certainly higher—between two and four million are common estimates. But some scientists think the total number of insects alone could be six million. As Mann and Plummer put it, "our planet is stuffed to bursting with life."

An inevitable result of so much life is a certain amount of death. Species do disappear—most spectacularly the dinosaurs. Man didn't start the extinction process, though his impact has been significant.

At what rate man kills is in dispute. Apocalyptics abound: Thomas Lovejoy of the World Wildlife Fund predicts that fully one-quarter of the earth's species could be eliminated by the year 2025. Thomas Ehrlich even contends that "*Homo sapiens* is no more immune to the effects of habitat destruction" than any other creature.

However, as with such controversies as global warming and ozone depletion, real scientists are increasingly weighing in against the scaremongers. Many are genuinely concerned, but nevertheless reject hysteria. Observe Mann and Plummer:

> Is the extinction crisis, then, a chimera, the figment of some biologists' imagination? The answer is more complex than a simple yes or no. Extinction rates are surely on the rise, but the number of verified disappearances is a tiny fraction of the multitude of species thought to exist. . . . We need much more evidence to believe that the world is in the midst of an immediate extinction crisis.

Species preservation is not cheap. The problem is much more than denying profits to wealthy developers. It involves everyone's quality of life. Mann and Plummer begin their book with Oklahoma's *Nicophorus americanus* burying beetle, which held up construction of a road connecting a community of poor Choctaw Indians to a hospital. Who is to say that the protection of this one of perhaps six million insects was more important than the health and comfort of several thousand impoverished people?

The federal government, that's who. There are several important technical issues involving the implementation of the ESA, the history of which Mann and Plummer relate in fascinating detail. But more fundamental is the question: why? Why work so hard to preserve species at all? Mann and Plummer neatly debunk the practical arguments, such as the potential for developing new, life-saving cures for diseases.

The real issue is what Mann and Plummer call the Noah Principle: "Because it's there." Purists want to protect anything that exists. In contrast, the public likes what can be best termed charismatic megafauna: eagles and elephants, for instance. Most creatures, like burying beetles, generate no public support. Then there are varieties of life that most people would prefer to kill, like the species of monkey in which the AIDS virus is thought to have first developed.

Mann and Plummer call for balance. They warn: "We *must* choose, a nerve-wracking selection among praiseworthy ends that has tragic overtones, and sometimes tragic consequences." The ESA does not allow us to make such choices, however. Although it intends to enact the Noah Principle, it has failed, despite its enormous cost. It has not halted the decline of species, with successful removals from the endangered list outnumbered one-hundredfold by additions.

Thus, the authors make a number of practical proposals, the most important of which is to sharply reduce the legal duties imposed on owners of property with wildlife habitat. Where the government wants to preserve habitat, it should purchase the property—something already done by private groups like the Nature Conservancy. Forcing the government to pay would force it to trade off the protection of species against other, competing goals.

The environment matters, including the diversity of species. But man, too, is part of the environment. Federal policies must be changed to better reflect this reality, some-

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thing much more likely to occur if policymakers read *Noah's Choice.* □

Doug Bandow is a Senior Fellow at the Cato Institute and the author of The Politics of Envy: Statism as Theology *(Transaction).*

The Sword of Imagination: Memoirs of a Half-Century of Literary Conflict
by Russell Kirk
William B. Eerdmans Publishing Company • 1995 • 514 pages • $34.99

Reviewed by William J. Watkins, Jr.

Russell Kirk (1918–1994) was proof of the power of individuals. Kirk's influence on the blossoming of contemporary American conservative thought cannot be measured. His 30 books on everything from economics to history will inspire their readers for years to come.

Kirk's final work, completed shortly before his death in April 1994, ranks among his best. *The Sword of Imagination: Memoirs of a Half-Century of Literary Conflict* contains his entertaining and informative ruminations spanning the 1920s to the 1990s. It is a personal chronicle of tumultuous times that anyone interested in ideas should not miss.

How Russell Kirk, enemy of omnipotent government, became interested in ideas and began his higher education is indeed ironic. As his secondary education drew to a close, Kirk felt he had had enough formal learning. Fortunately, he was persuaded by his high school principal to apply for a scholarship to Michigan State College. So as not to appear rude to the principal, Kirk applied for and won a scholarship that he really didn't want. "Off he went to college against his will," writes Kirk in the third person that he uses throughout the work, "having nothing better to do during the Roosevelt Recession in 1936. . . ." Hence, we can credit the New Deal and its ruinous economic policies as the impetus behind the career of one of this century's great men of letters.

The year after he finished his formal education with a Doctor of Letters degree from St. Andrews in Scotland, Kirk published his most influential book, *The Conservative Mind.* He went on to become one of the intellectual leaders of the conservative movement as he clearly delineated its principles. The America of the 1950s was still very much FDR's America. Voices of opposition to statist policies were not welcomed, much less understood.

Kirk describes the nomination of Dwight Eisenhower by the Republican convention in 1952 as an enormous setback for conservatism. Had the delegates not betrayed Senator Robert A. Taft, whom Kirk describes as the true leader of the party at the time, "the United States might have entered early upon far-reaching conservative measures. . . ." So instead of the repeal of the New Deal, the United States got the interstate highway system. Defeats of principle like this are one reason why Kirk almost titled *The Conservative Mind, The Conservatives' Rout* instead.

The publication of *The Conservative Mind* was a watershed event. It helped give coherence to an inchoate opposition to the fads of modernity. The book sparked debate and revived interest in such seminal thinkers as John C. Calhoun and John Adams. Now in its seventh edition, the book continues to inspire thought in new readers as well as old. It is destined to become part of The Permanent Things that Kirk loved so dearly.

Of course his memoirs don't stop with *The Conservative Mind.* Kirk goes on to recount how the political climate of the nation slowly changed. "The Remnant he had addressed had grown in numbers," writes Kirk approvingly, "now and again it had taken a town or a castle." Though it would be presumptuous to credit Kirk for the victories, his influence should not be given short shrift. Russell Kirk made an enormous difference in the intellectual environment.

Kirk's memoirs are an honest and enlightening account of the intellectual battles of the past half-century. *The Sword of Imagination* is testimony to a life lived in defense of principle. It is a proper farewell from a giant of our times. □

Mr. Watkins is assistant editor of The Freeman.

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The Solzhenitsyn Files

Edited and with an introduction by Michael Scammell

edition q, inc. • 1995 • 470 pages • $29.95

Reviewed by Robert Batemarco

"Freedom without a literature is like health without food. It just cannot be. To be sure, the yearning for freedom is deep in the hearts of men, even the slaves of the Soviets. But the yearning can turn into hard, numb despair if the faith upon which freedom thrives is not revivified from time to time by reference to its philosophy. It is not without reason that the communists do away with writers on freedom. . . ."

So wrote Frank Chodorov, former editor of *The Freeman,* over 40 years ago. The story of Alexander Solzhenitsyn provides a case in point. Michael Scammell skillfully teases out that story from over 150 recently declassified documents from Soviet archives. The only thing that detracts from the drama of the events described therein is that many of us already know how it turned out. For those readers not familiar with the whole affair, Scammell's excellent introduction places everything in context. The book covers a 17-year period starting with the beginning of the end of Nikita Khruschev's thaw in 1963 through Solzhenitsyn's being awarded the Nobel Prize in literature and his years of exile.

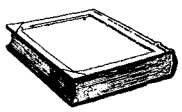
In between, we are treated to a fly-on-the-wall view of Soviet Politburo agonizing over how to stop Solzhenitsyn's searing criticism of the Soviet system without provoking adverse reaction from the West. The alternatives they consider range from "editing down" his works to the point of eliminating their appeal abroad to trying and imprisoning him. They eventually settle on exile and revocation of his Soviet citizenship.

It is enlightening to hear firsthand the Politburo's morbid fear of criticism, their straitened views of free expression ("the Soviet writer will go his own way. Together with the Party"), the extent of their surveillance activities (knowing where he shops, what he spends, and recording his conversations with his children), their attempts to discredit him even after his expulsion, accusing him of employing some of their very own *modus operandi* ("lies, juggling of facts, intentional distortion of the truth, etc.") and being out of touch with reality (KGB head and later party chairman Yuri Andropov claims, "there are indications that domestic and foreign policies of the Party enjoy the unanimous support of all the Soviet people," for instance).

We also hear from Solzhenitsyn himself, in his courageous letter to the Fourth Congress of Soviet Writers as well as some of his seized manuscripts. We can see for ourselves the qualities of mind and character which made him such a threat in the eyes of the Soviets. Contrast the prescience of the following statement with the self-delusion of the Andropov quote cited above: "This is a government without prospects. They have no conveyor belts connecting them to ideology, or the masses, or the economy, or foreign policy, or to the world communist movement—nothing. The levers to all the conveyor belts have broken down and don't function. They can decide all they want sitting at their desks. Yet it's clear at once that it's not working. You see? Honestly, I have that impression. They're paralyzed."

Although the documents included here of necessity reflect the Party's perspective, most readers will take them not at face value, but rather as a glimpse into the pathology of power. The lesson of the demise of that power is that nothing is more effective in curing its pathology than the truth. □

In addition to editing the book review section of The Freeman, *Dr. Batemarco is a marketing research manager in New York City and teaches economics at Marymount College in Tarrytown, New York.*



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Ayn Rand: The Russian Radical
by Chris Matthew Sciabarra
Pennsylvania State University Press • 1995 • 477 pages • $55.00 cloth; $18.95 paperback

Reviewed by David M. Brown

Much to my surprise the author of *Ayn Rand: The Russian Radical*, a comprehensive new study of Rand's thought and its genesis in Russian culture, has persuaded me that something called "dialectics" is integral to Ayn Rand's philosophic approach and crucial to its success.

Russian Radical is a different kind of look at Ayn Rand, a full-fledged "hermeneutic" on the contours, development, and interpretation of her thought. Not to fear. Chris Sciabarra is a visiting scholar at New York University who easily deploys crypto-postmodernist scholarly lingo, but he does not seem to be entirely depraved. His fundamental sympathy with Rand's thought is obvious; and clearly, Sciabarra wants to convey its complexity and power to an academic audience that has often dismissed Rand's rational egoism and libertarianism as polemical and shallow.

Sciabarra wants to approach Objectivism "as an evolved response to the dualities Rand confronted in Soviet Russia. Although she rejected both the mysticism of Russia's religious traditions and the secular collectivism of the Russian Marxists, she nonetheless remained a profoundly *Russian* thinker." The author argues, "Rand's Russian nature was not reflected merely in her heavy foreign accent or in the length of her novels. She was Russian in more fundamental ways. In the sweeping character of her generalizations, and in her passionate commitment to the practical realization of her ideals, Rand was fully within the Russian literary and philosophic tradition." The historical inquiry and speculation about Rand's Russian roots is core to Sciabarra's project. As political scientist and intellectual historian, his goal in the book is not to evaluate the validity of Rand's radical ideas (although his analysis is frequently suggestive on that score) but to interpret them in their historical context.

After examining the historical background in Russia, Sciabarra goes on to consider how Rand's dialectical rejection of dualism, as a "by-product" of her Russian heritage, saturated every aspect of her thought. From this angle he dissects the systemic relations of being and knowing, ethics, art, politics, sex, and "history and resolution," critically illuminating not only Rand's own thought but also its development and amendment in the hands of her followers, orthodox and non-orthodox alike. At every step, Sciabarra's scrupulous scholarship, dispassionate tone and dialectically dynamic argument are calculated to render Rand as palatable as possible to serious academic consideration. But the book is not aimed only at academics. It also invites those who already appreciate Rand to consider her thought anew.

Rand has repeatedly been read as a kind of "vulgar" Nietzschean egoist herself. But true to her non-dualism, Rand's mature theory in fact transcends the false alternative of sacrificing one's self to others or sacrificing others to one's self. She rejects not only the masochism of conventional altruism but the sadism of conventional, other-trampling "egoism." To pursue one's long-range interests rationally, one functions as neither master nor slave. Rand vividly illustrates these themes in her novel *The Fountainhead*, in which the Nietzschean kinds of egoist are contrasted with the more independent-minded, self-sufficient Howard Roark. Roark succeeds by earning the trust and rational agreement of others, and by trading values with them, not by getting anyone's self-sacrificial submission (despite dramatic opportunities to do so).

Sciabarra's insight into the import of Rand's integrative, contextualist dialectic is part of what makes his book distinctive and challenging. His methodology will be controversial, and here I cannot begin to suggest its playing out in the skein of the "hermeneutic." I take his understanding of Randian dialectic to be somewhat problem-

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atic as enunciated, less so as applied in Sciabarra's actual interpretation of Rand. There is room for much more controversy, too: for example, in Sciabarra's comparison of Rand to other thinkers, including provocative wondering about, say, whether Rand may have picked up her emphasis on productive work from Karl Marx. In terms of sheer new information, the material on Rand's education is invaluable, but of a necessarily speculative character.

Sciabarra also rehabilitates Rand's advocacy of limited government and repudiation of anarchism as an expression of her nondualistic, dialectical approach (and, yes, it turns out that anarchism really is "context-dropping"). He reconstructs Rand's analysis of power relations on the interlocking personal, cultural, and "structural" levels, and notes that her capitalist ideal is set forth as "the only social system that makes possible a triumph over social fragmentation."

The Aristotelian philosopher Henry Veatch has asked whether Objectivism will ever be academically respectable. That formerly open question must now be answered with an unequivocal "Yes," inasmuch as Chris Matthew Sciabarra's profound and subtle study has made it inevitable. But more important, *Ayn Rand: The Russian Radical* is a fundamental challenge to everyone to reassess the remarkable thought of a remarkable woman. □

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Payback: The Conspiracy to Destroy Michael Milken and His Financial Revolution

by Daniel R. Fischel

HarperCollins Publishers • 1995 • 326 pages • $25.00

Reviewed by George C. Leef

Daniel Fischel is eminently qualified to write a book on the attack on Michael Milken and the changes he wrought in the financial world in the 1980s. Fischel is a professor of law at the University of Chicago and also an expert in finance and the securities markets. He writes fearlessly, taking politicians, journalists, judges, and prosecutors to task for their ignorance but mostly venality in the entire affair. And in the course of it all, the reader learns a great deal about the world of finance, particularly the benefits of corporate restructurings financed by high-yield bonds. Any book that accomplishes so much good deserves hearty praise indeed.

The root of a vast amount of economic good and his own success (and later downfall) was Michael Milken's insight that there was a great untapped reservoir of capital available to entrepreneurs in "junk" (more appropriately called "high-yield") bonds. These are bonds with a higher risk of nonrepayment than investment-grade bonds and a correspondingly higher interest rate. Wall Street traditionally looked down its nose at such securities; the bond markets were for the blue chips. Those who wanted to borrow large quantities of capital for risky ventures had a very hard time doing so.

Michael Milken changed that. Working at an insignificant New York investment bank, Drexel Burnham Lambert, Milken convinced management to allow him to give his theory a try. Beginning with its first high-yield bond deal in 1977, Drexel swiftly rose to prominence in the industry.

In creating this success at Drexel, Milken also made many enemies. In selling billions worth of junk bonds, Milken angered the Wall Street patricians. Wall Street etiquette was that on big underwritings, the lead underwriter would form a syndicate to spread the risk and share the fees. Drexel rarely ever did this. Milken also made enemies of the old-line Fortune 500 executives who felt threatened by the emergence of competitors for control over their corporations.

One of the book's virtues is Fischel's ability to set the record straight about financial dealings, such as leveraged buyouts, which have been so demonized in the press that most of the public believes them to be

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no different from pillage. But all the "raiders" were doing was competing for control by purchasing stock. In the '70s and '80s, there were many overextended and ineptly run corporations in the country. That made it possible for the takeover specialists to profit by taking control, replacing complacent management teams and selling off parts of the corporation that didn't fit in. In the free market, you don't make money by destroying things. When the "raiders" made money, they did so by increasing efficiency.

The destruction of Michael Milken, Drexel, and a host of other firms and individuals was accomplished by the use of prosecutorial tactics that are the twentieth-century counterparts of the rack. The prosecutors were out to make big names for themselves by bringing down the high and mighty. Many of the convictions were later reversed by the Second Circuit Court of Appeals, but that was back-page news.

Just what was it that Milken had supposedly done? Fischel writes, "After the most thorough investigation of any individual's business practices in history, the government came up with nothing. In fact, the government never established that Milken's 'crimes' were anything other than routine business practices common in the industry."

Milken would eventually plead guilty to six felonies. Four of them were in conjunction with an alleged "stock parking" deal between Milken and Ivan Boesky. Stock parking is a harmless practice whereby one individual purchases and holds securities on behalf of another under an agreement that the true owner will later buy back the stock, taking all gains or losses. The SEC regulates stock parking, however, so that it will not be used to evade other regulations. The so-called crime was over a failure of record-keeping. Such violations had never before been treated as anything but a minor regulatory infraction. Milken had in all probability, Fischel concludes, not even committed the offenses charged. "Felonies" five and six were likewise feeble, more proof that the SEC's regulation is absurdly overblown than as an attack on the integrity of the financial markets.

If the case against Milken was so weak, why did he plead guilty? The answer is that the government had also indicted Michael's brother, Lowell, who had no involvement with any of the counts in the indictment, but was used by the government to increase its leverage against Michael. He knew that the government could and would ruin his brother if he didn't cooperate. One of the most disturbing facts that Fischel brings out is how easy it is for the government to conjure up allegations of securities law violations and use the threat of prosecution to force people's hands. Guilt isn't necessary. The prospective financial and emotional costs of a trial are sufficient to bend most people to the government's will.

After Milken's coerced guilty plea, numerous demagogic politicians piled on, claiming that he was responsible for the savings and loan crisis that had become a major political and financial debacle by the late '80s. Milken made the perfect scapegoat. Congress enacted a law forcing remaining S&Ls to divest themselves of ownership of all junk bonds. Fischel's discussion of the facts of the S&L crisis is excellent, refuting numerous popular myths, and his analysis of the destructive effects of forcing still-solvent S&Ls to dump their junk bond portfolios is razor sharp.

Fischel sums up the campaign against Michael Milken this way: "Milken's downfall proves only that the government, with its unlimited ability to harass and change the rules in the middle of the game, is more powerful than any individual. . . . The unholy alliance of the displaced establishment and 'decade of greed' rich-haters, aided by ambitious but unscrupulous government lawyers . . . combined to destroy him. The whole episode is a national disgrace." Read this excellent book and see if you don't agree. □

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To Renew America
by Newt Gingrich
HarperCollins Publishers • 1995 • 260 pages • $24.00

Reviewed by Wesley Allen Riddle

To Renew America is a good book worth reading. That said, one hastens to add that it is not a profound book; moreover, it is not as good as it should have been. Indeed, while the book is provocative and far superior to anything on the other side of the ideological aisle, it lacks depth and even coherence in some places. *To Renew America* fails to develop the essential philosophical groundwork for cultural and spiritual renewal or the economic and political rationale for any other type. The argumentation is built on platitudes and an almost boyish, *naive* optimism. Hence the book does little to achieve the purpose implied by its title. It leaves the serious reader annoyedly disappointed.

Gingrich writes instead for popular consumption. His style is straightforward like the conservative talk radio commentary he celebrates. There is nothing inherently wrong with the approach, but the approach is persuasive as opposed to reasoned. *To Renew America* does give the reader some heavy doses of common sense, an increasingly uncommon commodity. The book's treatment of welfare and health-care issues is particularly good in this regard. Gingrich also writes lucidly about the wrongheadedness of the current tax code, as well as the incessant running of budget deficits. But few conservatives and libertarians will take the simplistic and programmatic approach in this book as seriously as the liberals.

Gingrich is at his best when he explains history. The former history professor presents a clear exposition of what amounts to an emerging neoconservative revisionist interpretation of the modern period. Slowly but increasingly, this new school of thought is also affecting established academe. Gingrich assesses the American predicament today as one of cultural disintegration and civilizational decline. In Reaganesque fashion, he asserts it is within our power to mold the future—to succumb or forge ahead toward a boundless bounty. "To renew or to decay"—that is the question. Got problems? Take six steps and all will be well when it's morning again in America: (1) reassert American civilization; (2) accelerate entry into the Third Wave Information Age; (3) become more competitive in the world market; (4) replace the welfare state with an opportunity society; (5) decentralize power by shifting it to states, locales, and individuals; and (6) balance the federal budget.

Few would disagree per se with the six steps, which are really goals. Many should be a bit wary, however, because every step entailing an active verb above also employs the agency of the federal government. Gingrich reveals a so-called pragmatic conservatism in the book, which smacks of means justifying ends. Even the step to decentralize power is a bit disingenuous, since he does not predicate his argument on constitutionalism or morality.

Gingrich pictures a kind of political internet, in which the devolution of power plan goes out through the modem of centralized state policy. The policy exists as long as Republicans happen to be in charge—and while everyone behaves. Jack Kemp has identified this central inconsistency, namely the faith that individuals must be empowered but also harnessed to inexorable historical forces such as technology (helped along by government).

Waves don't make history. People do. In the final analysis, *To Renew America* lacks imagination, even as it sports a futuristic and sometimes far-fetched vision. Gingrich conceives of everyone marching to the beat of the same Third Wave Information Age drummer. By doing so, he fails to give people proper credit for their ability to envision and pursue still greater potentialities. He also fails to acknowledge people's natural right to choose one or a combination of such—or to reject them all. □

Wesley Allen Riddle is Assistant Professor of History at the United States Military Academy, West Point, New York, where he teaches the elective course in the American political tradition.

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"The lesson of paternalism ought to be unlearned and the better lesson taught that while the people should . . . support their Government its functions do not include the support of the people."

—GROVER CLEVELAND

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